CREDIT and Financial Management

MARCH 1947. *In This Issue:* Heimann Evaluates the 1947 Business Outlook ● Professor Chapin on Discounts ● The Responsibilities of Insurance Buyers ● Advance News of the 1947 Credit Congress

CREDIT
AND FINANCIAL MANAGEMENT

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England's Experiment with Socialism

A labor government is not new in England. Following the first war, the British had an experiment with it.

It frequently has been said that the way to make a capitalist out of any individual is to give him or get him to save a few thousand or to own a home. It is then he begins to appreciate the value of property rights and the constitutional guarantee that protects them. It is equally true that nothing is more wholesome as a sobering influence on economic legislation than a measure of responsibility for the proposed program. One can be very complacent and smug in criticism of a capitalistic or free enterprise system of government when the program put forth is not subject to a practical test under our direction and management.

However, when the responsibility is placed on our shoulders, we have to deliver in keeping with our promises for if we do not, we too are weighed in the balance. That is what is occurring in England today. Before we proceed on an all-out program of social change and socialist philosophies, it would be well to survey the results of such programs where they have been attempted or where they are in effect.

Such a survey may cause us to conclude that human progress naturally has its growing pains and can not be forced by legislation, but that it results from patience and understanding and years of effort.

England may be learning that lesson today.

HENRY H. HEIMANN,
EXECUTIVE MANAGER

THE BUSINESS OUTLOOK FOR 1947

The World's Recovery Depends On Ours

by HENRY H. HEIMANN

Executive Manager, National Association of Credit Men

Our national well-being should be sufficiently important to command our very best effort in this postwar period. Every patriotic American is interested in his nation's welfare. We should all do our level best to ensure a continuation of our progress. However, if our own welfare is not sufficient incentive to cause us to work a little harder to repair and rebuild the damage of the war, let us not overlook the fact that our very best effort is needed over here to bring a measure of stability to the world situation.

This country represents an economic system which is undergoing its most severe test. The world is watching our postwar efforts. Many people are in doubt as to the survival of our economic system, and as to whether we can achieve recovery within it. The economic philosophy that has characterized our nation has won us a pattern of life that is the envy of the world. It is also a pattern of life that stands as a bulwark against the complete domination of the world by the left-wing or Communist group. Should we fail in our recovery, then there can be no question but that the world would swing further to the left. Under these circumstances, no one could predict the future, if any, of the rights of mankind. If, on the other hand, we succeed, nations throughout the world will once again look yearningly towards the American way of life and be stimulated in their endeavor to work towards our standard of living.

A Hard Road Ahead

The major responsibility for any contribution to civilization that we can make rests largely in the hands of our business men. Credit managers have more than their share of individual responsibility in the business structure that will attempt once again to prove that our economic system and our representative form of government is the best the world has ever known.

Let us not delude ourselves by believing that the resumption of our progress is an easy matter. We are attempting this recovery in a strange atmosphere, an economic climate heretofore unknown to us. Let us survey it for a moment.

The greatest sales campaign the world has ever known against our system and our way of life is not only now in progress, but has been active for a number of years. In war ridden countries where people suffered severely, where they witnessed the destruction of their homes and the loss of their families, the campaign has made progress.

This sales campaign is peculiar in one respect. Let me compare it to a sales campaign we would undertake in private business. No sales manager worthy of the name, or no industrial management would think of sending salesmen into the field without equipping them with a representative sample, a model or a drawing of the product. However, the Communistic sales campaign presents no sample. It speaks in glowing terms of reaching the millennium through the adoption of its program. But when you ask that you be shown a country or an area in which its economic system has been adopted so that you might evaluate the result of the program, you are at once labeled as a prejudiced buyer and a reactionary whose mind is closed to new ideas. Make no mistake about it, there is a sample but it is not on exhibit. The iron curtain shrouds it in secrecy. The concentration camps or the Siberian prisons are not exposed to view. These are labeled the figments of the imagination of the capitalist. However, first hand reports indicate they do exist.

Human Rights Non-Existent

In this world sales campaign, the very fact that no sample is displayed nor is permitted to be shown, should warn the mass of the people that they are in effect buying a pig in a poke if they adopt this philosophy. There is adequate evidence of the total disregard of human rights and of the absence of property rights wherever this godless philosophy has actually taken hold. These facts can not be emphasized too strongly to the customers upon whom these salesmen are calling. It is our responsibility to warn these customers constantly of their right to demand a sample so they may see the type of merchandise they are being offered.

In normal times perhaps it would be unnecessary to be so concerned about people reaching for an unknown product irrespective of the high pressure and ruthless tactics employed in pushing the sale. However, the world is not in normal times. We are living in a state of revolution. In the comfort and luxury of our own homes we are too unconscious of the suffering and privation that has visited many nations throughout the world. These people have seen their homes broken up, their property destroyed, their families sacrificed and scattered. They are desperate and a great many of them have lost hope. They form a

group of eager prospects who will reach for anything under the theory that it couldn't be worse than that which they have experienced. They know that twice in thirty years their sons have been led out to the field of battle and slaughtered like cattle. As a consequence, they constitute ready-made customers for some group that will promise the millennium or even promise relative security and well-being. They are too disturbed in mind and too tortured in body to sit down and analyze any new program.

Our Popularity Sagging

We have sought to allay some of the suffering by the use of money and goods. Always a generous nation, we have responded to the needs of people who are so distressed. No doubt there has been much abuse in this lending program. Some of it has not been too sound.

Despite the fact that we have been and presently are the envy of the world, the hero worship that formerly has been given to us no longer exists in certain sections of the world. Through our liberal aid policies, we have destroyed some of it because we have left the impression that we could be called upon indefinitely for this help and many people who have suffered resent the fact that we are fast approaching the day when this aid will have to be denied. We have not in all instances planned our help judiciously. In my opinion, we have failed to emphasize that the objective of our distress-help was to tide people over an emergency and to enable them to get on their own feet and make their own way.

Another reason why we are not in such a favored position in terms of human evaluation is that we had to bear the brunt of the more objectionable part of a military campaign. The enemy people certainly realize that is was our bombers which did the damage. Whether right or wrong, we were the ones to drop the atomic bomb.

Pioneer Spirit Needed

In attempting a sound recovery which will lead the world to a better way of life, we naturally must look to our domestic situation. We must confess that in a measure we have lost our desire to work. We do not tackle the job or at least have not in the past year, with the same grim determination that characterized the effort of the pioneers who settled our country. We have not remained steadfastly at the job as did our young men and women who fought the battles for us overseas. Frankly, we have had a rather severe ethical collapse. This is a natural result of war and only time can correct it.

Even for years prior to the war we were, in my opinion, on an unsound fiscal basis. The recovery we are now trying to stage finds us facing such things as a heavy tax burden for centuries to come. It finds us with a cost of operation in business that still has within its budget the swollen costs of war years. This cost of operation based upon a war volume will continue to plague business men no end unless it is liquidated to a peace time basis, as eventually it must. We have not as yet liquidated the extravagances that grew with us as we produced at any price so that we might properly equip the military with the sinews of the war.

We have, in the course of the past quarter of a century, increasingly failed to meet issues. There has been evidence of a lack of courage which stands in sharp contrast to the courage of our men who were in the field of battle. Our people have been made group conscious. Our government has been too much one of political expediency and this applies whether it has reference to a tariff that was unconscionable or to a subsidy that might influence votes.

We Make a Goal of Mediocrity

Our pioneers put a premium on progress. There was a measure of pride and a just measure of reward in doing the unusual. There was respect for any one or any organization that made an outstanding record. In this world revolution the tendency, even in our own nation, has been to try to work to a common level. We may deny it, and to be sure it has not gone so far as in other nations, but it has made a beginning. We have made a goal of mediocrity. Such a philosophy or program goes contrary to all way of life. It is certainly contrary to nature.

Let me illustrate this last statement in a simple way. We have improved the breed of our cattle by a constant program of selection. Even though we have a fruit tree that may be productive, nature grants us varying sizes of fruit on trees. When we choose nursery stock, we choose the seed from the better fruit. The natural laws and the laws of God are in keeping with this plan.

These are some of the problems, world-wide and national, that confront us. Even though industry has a tremendous responsibility, at the outset it needs and must have the support of a sound government if it is going to accomplish its purpose. Such a government must be courageous and honest.

For almost eighteen years we have been living the life of a prodigal son and we have been in a fool's paradise. Today we are promised a balanced budget. This budget, however, still requires each and every individual in the land to work the first two hours of each day that he is employed in support of the government under which he lives. It is an unconscionable misappropriation of his time. It is a burden of government that nearly reaches the intolerable in a representative form of government. The budget presented makes much ado over the beginning of a reduction of the tremendous debt which in all honesty must not only be serviced, but which in fairness to our children and grandchildren, must be reduced through the productive effort of our generation.

Amortization—Eighty Cents

Let me illustrate the proposed reduction of debt planned in the recently submitted budget. Let us assume that you began eighteen years ago to issue a small note to your bank. As it came due each year, you not only demanded a renewal of the small note, but you demanded an increased loan. This you continued to demand and secure for eighteen consecutive years. The banker, and in this instance the public, has finally called a halt. By now your note at the bank, which it

has held for eighteen years, has reached the sum of one thousand dollars. In response to a demand by the banker that you start paying on the principle of this note, you make a promise that when it is due a year from today you will pay the interest and an additional 80c to apply on the thousand dollars. That is exactly the situation and ratio of a two hundred million dollar surplus to be applied toward the reduction of a debt now totaling $260 billion.

Do you think your banker would be satisfied with this? In a measure you and your fellow citizens are the bankers and if you are dissatisfied with it, as you have a right to be, it is up to you to stage a public protest. In your business you need a sound governmental fiscal policy to give you the stability that will enable you to actually get under way in production. When you evaluate your exchange to goods or services, your yardstick of dollars and cents must be honest and true if you wish to facilitate a proper exchange.

Cooperation Needed

The next thing you need is a cooperative effort such as characterized our war activity. The rank and file of men want to work and want to produce. This right must be paramount to the rights of any group whether they be union labor or management. The government needs to give you this assurance by way of new legislation. In the pursuit of this right to work, you must be protected in person and property. It should be criminal not to do so. You as a business man should not be victimized by reason of a quarrel existing between two groups in the field of labor, or what is known as a jurisdictional dispute.

You as a business man are subject to anti-trust laws. Labor unions should operate under the same measure of control. The right of labor to organize is inviolate so long as it is done by a peaceful method. It is here to stay. Your right, however, as a business man to lay your case before your own workmen should not be hampered in the future by a Wagner or any other Act. You as a business man must report and account to your stockholders. Labor unions must make the same accounting to their "stockholders." You as a business man must assume responsibility for your acts and resort to court action is available if you do not do so. The same responsibility must be assumed by labor unions.

The court, in certain instances, has the right to enjoin you from doing things contrary to the public interest. The court should have the right to enjoin any group that seeks to launch a program contrary to the nation's welfare.

Business in America has grown strong and virile because of the reward that awaits men when the business rendered unusual service. The future labor union must be patterned along the same line and the union leaders of tomorrow must be men chosen from the ranks of labor within the industry.

Spending Spree Over

I am optimistic enough to believe that we will return to a sound fiscal policy. I believe the spending pendulum has swung to its extreme and that it will work back in its measured stroke. I am also optimistic enough to believe that the desire to produce will again assert itself. Do not blame the working man solely for our lack of production. The lack of desire to work, in my opinion, can be found in almost every class. If you think this is an off-hand condemnation, let me put it to a test. If there is any man or woman in this room who has not decided that he will take it a little easier in the next ten years, let him speak up. You know you have decided not to work so hard in the years ahead.

Ethical Improvement Likely

During the war we destroyed much property, sacrificed many human lives, and devastated vast areas. To rebuild will require a greater, not a lesser effort. We must work more, not less and we must do better, not poorer work. Perhaps if the nonproductive groups get this idea thoroughly in mind, and practice it, the working man may be encouraged to greater industry. Every one of you ought to go to your job each morning with a firm resolve to do the job a little better than you have been doing your routine day's work heretofore.

I believe the bad ethics and measures of dishonesty in evidence in some businesses and labor movements will likewise be corrected in the months ahead. I have always found the rank and file of labor basically honest. Inherently I am sure that labor still takes great pride in its work. I don't believe the average working man has any misconception about the portal pay suits that are now being filed against business. The average working man knows he expected no such pay. Furthermore, he knows that the company did not provide for it. He must also realize that the goods he helped produce were priced and distributed on a wage cost that did not take into account any portal-to-portal pay. I think the average working man would be quick to realize that these demands, to say the least, are what people in the country would call a slick move. There is an element of deceit and dishonesty in them. That is why I do not believe they will be paid.

I believe most of these demands and suits are being filed for the purpose of getting an adjustment made in basic hourly rates. If this be true, they are equally reprehensible. No subterfuge should be resorted to; if wage increases are the issue we should deal with it directly and openly. Better real wages can come from only two sources at the present time. One is increased production supporting such increased wages and the other is a reduction in the cost of government permitting a lower tax and consequently a higher take home pay.

Don't Peddle Obsolete Stock

I stated a moment ago that we failed to face facts. I am questioning whether the entire subsidy program for agriculture has been of benefit. It has never proven successful in other nations that have tried it. It is not basically sound. In the end I think it must go unless we intend to subsidize every group that faces a financial problem. This is impossible.

If you are going to have a sound recovery, you must price your merchandise right. You must style it right. You must seek to produce the type of merchandise that

the postwar public will demand. I care not how good your product was in prewar years, it must meet postwar standards. You must be ingenious and resourceful and not handicap your sales force with an obsolete product. If you were in the fountain pen business today, your salesmen would be handicapped if they did not have a ball pen in their sample kit. I am not arguing the merits of ball point pens. I am arguing that your salesmen need in their kits products that the public demands and is willing to buy.

Many business men have said to me that with present labor costs it will be almost impossible to get a lower cost on a unit of merchandise. I disagree, in the sense that I believe that the competition is going to be so severe, and most of it so unintelligent, that a temporary price structure is going to be set in many instances by competitive conditions. Eventually, of course, it must rest upon the foundation of cost of production but in the period immediately ahead, competition, particularly where inventories have been accumulated, and not cost of production, will set the price structure in many instances. The consumer, as always in a normal time, will be the deciding factor on prices.

Your business must be strong and efficient if you are going to hold your own in the years ahead. You must not only weed out every possible war extravagance, but you must wage an aggressive campaign to reduce the cost of government, for taxes constitute one of your largest items of cost. You need not look for any relief in corporate taxes in the year ahead. Double taxation of dividends will probably be given study and some action may be started towards the eventual elimination of this inequitable tax. Individually you may procure a small reduction in taxes but there will be no overall 20% reduction.

Balanced Budget First

If I properly bespeak the mind of the members of the organization I represent, I believe we are favorable to a program that puts a balanced budget and debt reduction ahead of tax relief. We believe that both can be accomplished even though the tax relief be in modest amounts. However, the psychological influence of tax relief will be no modest item. It will stimulate activity. We believe the entire field of taxation and particularly the conflict and overlapping of state, city and Federal taxes needs careful study and tax programs should be revised in keeping with the information resulting from such study.

Irrespective of the problems that confront us, I am not so pessimistic as to be gloomy about our future. Remember, we have a better demand for merchandise than the world has ever known. To be sure, it is not quite as high as some people evaluate it because of duplication, but it is nevertheless a tremendous demand. We have the greatest plant capacity we have ever known to satisfy this demand. The industrial genius of this country is not dead. Our business leaders are aggressive and ingenious and the spirit of American youth entering into business portends accomplishment. A reasonable incentive will ensure high production and good employment. We will have adequate credit with which to do this business. The responsibility of the credit executives, let me repeat, is a heavy one. You

This is the text of the address given by Mr. Heimann before 1800 executives on February 6th, at the annual banquet of the New York Credit Men's Association. Mr. Heimann will speak at the first session of the Credit Congress in New York on May 12th. Will you be there?

in the textile business know that your industry is in an unsettled state. There will be some failures from top to bottom. You will be plagued with the returned merchandise practice. Credit executives should resist this.

As a credit executive you must evaluate your new customer carefully. Is he capable of conducting a business in peacetime competition? Or is he a war bloomer? Where is his source of capital? You have a right to know. If it is black market capital, you won't propose to accept such a credit hazard. How are the labor conditions in his plant? What are his tax liabilities and how satisfactorily have they been cleaned up? Is he plagued with portal-to-portal pay suits?

Installment Plans Possible

As a credit executive, even though it never has been used in your business, you had better be prepared with a sound installment credit plan. You may not wish to introduce it but your competitor may force you to do so. As a credit executive you know there will be an increase in failures. Your responsibilities for sound counsel and advice to your customer is greater than it has ever been.

Every business organization should check its commitments. Many of these may have been back ordered during the war. They may not have been cancelled. Some day you may find yourself faced with the delivery of goods for which you have no need.

I am sure that the progressive institution is doing everything possible to train its sales force for the intensive competition ahead. Credit executives have a responsibility to give the rudiments of credit management in these sales conferences. It is a poor executive who does not see to it that this is done.

The sellers' market during the war is fast vanishing. In some lines a buyers' market is at hand. In many it is just around the corner. Certain businesses need not be too concerned about the demand for a reasonable period of time. The automobile business has a tremendous backlog but since the recent price increases, this demand has been substantially reduced. The conventional type of low priced automobile now calls for a down payment of $500 and a monthly payment during the year of $72. This type of financing is too heavy for the individual who would be a customer if automobiles were priced at their prewar prices. The backlog of the automobile business, therefore, is not as strong as it appeared to be.

There is a tremendous shortage of housing and few people can see how it can be overcome very quickly. However, the price of houses is declining. Real estate

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MORE—BUT NOT ALL—ON DISCOUNTS

Should Terms and Collection Procedures Be Overhauled?

by ALBERT F. CHAPIN
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Any phase of the credit manager's work is of interest and any perplexing problem is a constant challenge to him, but it is not always possible to resolve the problem. Credit managers and credit departments have been wrestling, lo, these many years, with the cash discount. Many have resigned themselves to the belief that it is insoluble and that they must live with it and make the best of it as long as they are engaged in credit work. Others are anxious to grapple with the problem but realize it can be eradicated only by team work.

Terms of sale are rarely changed. Instead, prices are made to fit the terms. Terms should be adjusted, if necessary, to fit current conditions. The seller, not the buyer, should determine the terms for they affect, or are a part of, the price. Business management and the credit manager should get together and analyze their market and the relation of their terms of sale to it. Terms may become outworn and may need to be replaced with a newer model.

In the colonial period and in the early years of this country goods were sold largely on credit terms to the business firm but largely on cash terms to the consumer. Credit was required by the merchant because "turnover" as we know it today, did not exist. An analysis of 324 industrial concerns made in 1832, and reported by Roy A. Foulke in *The Sinews of American Commerce,* disclosed terms ranging from 2 to 12 months with 119 of the concerns using 6 months terms. Cash sales were also made. The same source yields the following quotation written in 1838: "Traders . . . distant 1,000, 1,500 or 2,000 miles and returning but once in 12 or 18 months, are supplied with merchandise on credit, and the small difference charged in consideration thereof is evidence of the punctuality with which they fulfil their engagements." Here is recognition of the difference between a cash price and a credit price. It was not, however, a common practice to offer both in the same quotation though it was occasionally done. Cash discounts, when offered, were generally larger than those offered today, the prevailing amounts being 5 to 8 percent.

Discount Comparatively Modern

It was not until some time subsequent to the Civil War that the cash discount fixed itself as a customary part of price quotations. Its growth was due largely to distrust of the future value of the dollar. The suspension of specific payments and the excessive use of greenbacks made the value of credit instruments uncertain. Sellers, too, were reaching out for wider markets. Distrust of the future value of the dollar and distrust of new customers whom the seller had never seen and did not know influenced him to offer as much as 6 to 10 per cent for cash. The use of the cash discount spread rapidly and eventually became an integral part of American business terms.

That it is a permanent fixture in business is by no means to be assumed. Changing conditions in the fields of marketing and finance may gradually cause its elimination. Or its elimination may result more rapidly from its abuse. Business men in general have far less understanding of discounts and terms than have credit managers. Credit managers, too, sometimes misinterpret their own terms, confusing cash and trade discounts and attempting to impose on the customer conditions and penalties that the terms do not write into the contract. This article deals solely with the cash discount.

A definition of the cash discount, often repeated, expresses it as a premium allowed for the advance payment of a bill. Another conception of the cash discount, as often encountered, explains it as a part of the seller's profit which he is willing to forego in order to get the prompt use of his money. Neither of these definitions gives a clear understanding of the cash discount nor of its functions. Undoubtedly the most common credit terms in business today are 2% discount in 10 days, net 30 days. Originally these and similar terms were stated as 2% for cash, net 30 days. By custom the time allowed for the cash payment has stretched to a 10 day period. The terms in effect say "if you do not make your payment in 10 days we cannot regard it as a cash sale." The result has been the substitution of the words "10 days" for the words "for cash."

Function of the Cash Discount

Assume a seller has an article, the price of which, quoted in the conventional manner, is $1.50, terms 2/10 n/30. By these terms the seller makes two distinct offers of the same article. He says the buyer may have it for $1.47 and pay for it in 10 days or he may have it for $1.50 and pay for it in 30 days. One difficulty in our grasping the function of the so-called cash discount stems from the fact that we think of the price of the merchandise in the above illustration as $1.50. How can it be said its price is $1.50 when it can be bought for $1.47? As a matter of fact, the

price of the article is $1.47, its cash price, but if the buyer wants the use of the article or its equivalent, $1.47, for 20 days, the use of it will cost him 3 cents. This is the seller's charge for making the loan—for financing the buyer. Clearly the function of the so-called cash discount—the difference between cash price and the credit price—is as a financing charge. Let us examine this financing and its rate. Whether the financing rate is or is not exorbitant depends upon the conditions in the seller's market.

The terms quoted, 2/10 n/30, are equivalent to an interest charge slightly in excess of 36 per cent per annum. The rate is determined as follows: if the charge is 2 per cent for 20 days, the difference between 10 days and 30 days, which is approximately $1/18$ of a year, then the rate for a full year is 36 per cent. (Those who wish to be exact will realize the amount borrowed for 20 days at a cost of 3 cents is $1.47, not $1.50, making the flat interest rate slightly in excess of 2 per cent and computing the charge on a 365 day year brings a result of 37.23 per cent.) Let us regard the rate, as is customarily done, as 36 per cent. This seems like an extremely high interest rate to impose upon good customers. But is it too high?

Analysis of the Financing Rate

Let it be recalled that the function of the finance charge (the so-called cash discount) is to recover the costs of financing the customer. Obviously the option of either cash terms, 10 days, or credit terms, 30 days, permits the classification of customers as cash customers and credit customers. The credit customers require the more attention and are the more expensive to handle. The only credit department expenses that may be attributed to the cash customer, and he is not to be confused with the C. O. D. customer, are the minor ones of credit investigation and "carrying" him for 10 days. Both of these expenses and several additional ones must be incurred with the credit customers as well. Credit customers must be "carried" at least an additional 20 days and collection costs will be incurred. In addition, there will be bad debt losses which are also a credit department expense. The credit costs, which should be borne by the credit customers, may be briefly classified as interest, bad debts, and collection costs. It is to recover these costs that the financing charge is levied, where it should be levied, against the credit portion of the customers.

Is the financing charge too high? Before answering that question it is suggested that the credit manager, operating under discount terms, analyze as accurately as possible the sales in his own business. The following hypothetical case is given for illustration. Let it be assumed a business has annual sales of $2,000,000 under terms of 2/10 n/30. Assume that the customers divide, in dollar volume, into one-half cash and one-half credit customers. The cash received from the cash customers will total $980,000 (one-half the sales $1,000,000, less the discount $20,000). The credit customers pay the full amount of $1,000,000 less any bad debts that may be incurred. Let it be assumed bad debts are ½ per cent of total sales or $10,000. (The bad debts are properly chargeable against the credit portion of the business since it is in this portion that they occur. Cash discounting customers do not fail.) The net amount collected is, then, $990,000.

Slow Payers Add to Costs

But experience has taught us that customers who do not pay in 10 days do not all pay in 30 days either. Assume they pay on an average of 50 days. They have been carried on the average 40 days longer than the 10 day customers and assuming money is worth 6 per cent to the seller, the cost to him, approximately, is $6,666.67 ($1,000,000 for 40 days at 6 per cent). Assume collection costs were $3,500. We have, then, total costs, aside from bad debts, $10,166.67, which deducted from the $990,000 received from the credit customers, leaves $979,833.33 or $166.67 less profit from the credit class than from the cash class of customers. Hence, the financing charge in this hypothetical case comes within $166.67 of recovering financing expenses. If the seller wishes to make a profit on the financing he might raise the financing charge to 4 cents, thus raising the price, as conventionally quoted, to $1.51 and the terms 2½% 10 days, net 30 days. The discount thus approximately cancelling the 4 cent charge. How simple this solution would be were the seller the only one in his market!

The reader may agree that the hypothetical illustration is well within the realm of actuality, and he may be surprised that the financing rate of 36 per cent yields not a profit but a slight loss. This financing rate, however, and the terms, will bear further examination. The financing rate, in the illustration used, as a matter of fact is something less than 36 per cent because the concern's actual or effective terms are not 2/10 net 30 but actually 2/10 net 50. The financing rate, therefore, is not 36 per cent but 18 per cent. Every credit analyst knows that it is the actual, not the quoted, terms which have the greater significance. Hence the analyst goes to the trouble of computing the ratio of Sales to Receivables or reduces the ratio to the average credit period of all sales when analyzing a customer's statement. He derives, it is granted, a true "average" only if the Receivables shown on his customer's statement represent the average for the year, but whether a true "average" or not, the figure is valuable for comparison with previous statements of the subject or with results achieved by other concerns in similar businesses.

Quotations Obscure Prices

It is the custom of the American manufacturer and wholesaler to obscure the price of merchandise by the terms which customarily accompany and are a part of the price. The mere quotation of a price leaves the buyer uncertain. He must then ask what terms apply to the price and if the terms include a financing charge he must deduct the financing charge to arrive at the real price. The so-called cash discount might not be so vexing a problem to American business men were they to price what they have to sell as does the automobile dealer. He emphasises the lower price, the cash price. It is the cash price which he quotes. Then, if the purchaser wants to borrow a part of the value of the automobile, the dealer quotes a price to fit the financing required and the contract to sell is con-

summated. No one thinks of the difference between the cash price and the time-price of an automobile as a cash discount but rather as a financing charge which it is frankly stated to be. Yet the opinion is ventured that many a business man has never so regarded the cash discount. He thinks of it as merely an arbitrary allowance granted or withheld according to the whim of the particular man with whom he deals. Hence the buyer is apt to become arbitrary and pay the cash price even though he is not making a cash payment.

Terms in the Retail Field

In the retail field rarely is a distinction in price made between the cash and the credit buyer. But the retailer who sells on credit is subject to the same credit costs as the manufacturer or wholesaler. Under the cash discount terms offered by the manufacturer and wholesaler the cash buyer has an advantage. In the retail field the reverse is true. Not only does the retail credit customer enjoy the use of an article for some time before he must pay for it, but he is a favored customer in other ways. The prevalent manner of handling the recent shortage of nylon hosiery may be cited as an example of this favoritism. The result of the lack of discrimination between the cash and the credit buyer is, in theory at least, the subsidization of the latter by the former. The cost of the retailer's credit department is spread over both cash and credit purchasers. The credit customer pays for only a part of the privilege which he enjoys.

Resentment and Resistance

Buyers, or some of them, in the manufacturers' and wholesalers' market, who are subjected to the financing charge, both misunderstand and resent it. Yet it is eminently fair. Their resentment and refusal to accept it is natural and in the manner of human behavior. The financing charge or cash discount divides all customers into two classes—cash customers and credit customers. But there is a vast difference among credit customers. Some give no more trouble than do the cash customers. They never need be dunned nor do they turn into bad debts. The only expense over the cash customer is, perhaps, ⅓ per cent under present interest rates. Yet the good credit customer is charged the same price as the most troublesome fraction of customers where high collection costs prevail and bad debts develop. The good customer (and all buyers regard themselves as good customers) cannot see why he should be penalized 2 per cent, more or less depending on the terms, merely because he has delayed his payment for a few days. His resentment and his reaction to it is easy to understand and has considerable logic to support it. Moreover, the ease with which the charge may be circumvented invites the arbitrary, if not dishonest, action of the customer, an action which is too often condoned by the creditor. Its effect is pernicious. The credit manager who may be greatly irritated by this unfair action on the part of some of his customers may not be aware that his own concern may be as great an offender as the worst of those with whom he has to deal.

Accountants' Treatment of Cash Discount

A discussion of the cash discount would not be complete if its treatment in accounting procedure were omitted. How is the same discount treated by the seller and by the buyers? The customary practice is for both to ignore the discount option when entering the transaction on the books. Thus, the seller charges the customer's account and credits "merchandise sales" account with the gross amount. The buyer, on his part, charges "merchandise purchases" account and credits the vendor's account, also with the gross amount.

Here the author wishes to insert a *nota bene*. If the buyer pays the cash price there is a difference between what he has entered as the price of the merchandise and what he pays for it. This difference he is accustomed to label as "other income" or "financial profit" or some similar term. In reality what has happened is this: When the merchandise is taken in, let us say in the course of a year in the amount of $1,000,000, the buyer is acting on the assumption that he will borrow the sum for 20 days or so at a cost of $20,000. Then he does not borrow, but pays cash, and because he does not borrow he says he has a "financial profit" of $20,000. Profits are not made merely by refraining from incurring an expense. Would it not be as reasonable to rejoice over a profit of $6,000 because $100,000 had not been borrowed from the bank at 6 per cent?

Actually there is no profit. One department has been overcharged and another department has taken the credit. The production department might well protest at having its record burdened with a cost that is in reality a financial and not a merchandise cost. As a matter of fact, it must be admitted that many accountants are now taking in merchandise at its true cost. This whole question lies rather in the field of accounting theory than in the field of practicality. Whichever treatment is adopted by a business will not affect the final net profit resulting from its operations.

Is a Change Needed?

Should cash discounts be discontinued? Should the financing charge be discontinued? It is the same question. Before it can be answered each business should examine carefully the many facets of the problem. If abolished, what might be the effect on sales, on collections, on profits? Which is fairer to the customer and to the seller, to retain the financing charge or to discard it and so spread the financing or credit cost over all customers? If it has become standardized in various sections of the business world how can it be abolished without one or the other class feeling there has been unfair discrimination?

In principle the finance charge is eminently fair. In principle the only criticism that could be leveled at it was suggested in a previous paragraph. It penalizes the good credit customer. But if there is no practical way of avoiding the penalty, the financing cost with as much justice could be spread over the cash customers also. If it is right that you and I should have to pay a share of all bad debt losses, as we do, there is equal justice in distributing this business cost over all customers. Business cannot allocate expenses and recover them where they are incurred.

What effect might the abolition of the cash discount have upon collections? The cash discount has been

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FEDERAL MEDIATION PROPOSED

C.E.D. Committee Measure to Strengthen Labor Peace

The creation by law of a permanent national management-labor council to make continuing studies of industrial relations is recommended in a statement of national policy made public late in February by the Research and Policy Committee of the Committee for Economic Development.

Under the CED's proposal, the council, whose members would be appointed by the President, subject to confirmation by the Senate, would work with a greatly strengthened Federal Mediation Service, which the CED also recommends be established.

The proposed council would be required to report annually to the President on the state of industrial peace throughout the nation, to confer regularly with the secretaries of Labor and Commerce and the chairmen of the Senate and House labor committees, to advise the director of mediation on matters of policy and to approve the appointment of all mediators.

Mediation Before a Strike

Two other recommendations, designed to make collective bargaining work better in this country, highlight the statement. One is that no strike be called or strike vote taken until bargaining has had a chance to function and the mediation service an opportunity to settle the dispute. The other would require that differences arising from the interpretation of the terms of agreements be arbitrated.

The statement of national policy was made public by Paul G. Hoffman, CED chairman; and Eric Johnston, who served as chairman of a special committee of businessmen and labor relations experts which drafted the statement.

"The report is the result of eight months of careful study by leading businessmen and outstanding labor relations experts, working together under the unique CED plan which combines the practical experience of businessmen and the specialized knowledge of experts in producing responsible statements in the public interest," Hoffman said.

"CED's recommendations in this report are based upon the premise that the general public has a vested interest in industrial peace, that labor disputes are no longer the sole concern of management and labor, and in consequence the general public, through government, has an obvious right to impose rules upon both management and labor which will promote peaceful bargaining," he added.

Legislative changes are recommended to improve contract making, to require observance of contracts, and to eliminate abuses which have caused industrial strife. The committee warns, however, that legislation alone cannot make collective bargaining work. Union and management must bring "sanity, moderation and tolerance to the bargaining table," the report declares.

The committee rejects, as unsound, proposals for compulsory arbitration and super-boards.

Replaces Conciliation Service

The committee recommends the establishment of a strong new mediation service, headed by a director, in order to facilitate the making of contracts. The new service, which would replace the present conciliation service, would be placed administratively in the Department of Labor but would be independent in matters of policy. It would be staffed by highly competent professional personnel, having "new status, new functions and new dignity."

The new federal mediation board would have three principal functions. One would be to foster local and state mediation by helping communities and states establish mediation services of their own, and to refer disputes to such bodies where practical. Decentralization of the federal mediation service also is proposed in the plan.

A second function would be to provide mediators where local and state mediation do not exist, or where parties prefer to call upon the federal mediation service. A third function would be to encourage voluntary arbitration in contract making. The service would encourage private arbitration services and would maintain a panel of competent arbitrators available upon request by employer and union.

The committee's proposal provides for a required ten day period of mediation before a strike vote can be taken, a strike declared or a lockout put into effect. A statement of unresolved issues must accompany the request for mediation. The committee feels that the public has an interest in every strike, and, therefore, a government mediator or one selected by the parties should have an opportunity to seek a solution of the dispute.

Majority Must Approve Strike

If the dispute cannot be settled during the mediation period, the committee recommends a procedure for a democratic strike vote. To assure this, it is proposed that the strike vote be supervised and taken by secret ballot as promptly as possible after reasonable notice has been given to the union membership. A majority of union members voting must approve the strike before it can be called.

The committee recommends that supervisory employees be excluded from coverage under the Wagner Act. Other proposed Wagner Act changes include an amendment to require unions as well as managements to bargain, and another to assure freedom of speech by both employers and unions. These changes would, in

the committee's opinion, tend to create "pressures for peace" instead of pressures for strikes and strife.

To promote more effective administration of agreements, the committee would provide means for preventing breaches of contracts, also for final and peaceful adjudication of differences over the meaning of contract terms. It is recommended that legislation be enacted to require all employers and unions who are parties to collective baragining contracts to incorporate in their agreements a procedure, ending in arbitration, to settle claims of contract violation by the union and employees as well as by the employer.

In urging that abuses which have tended to undermine collective bargaining be eliminated, the committee declares that jurisdictional disputes have no moral justification and must be prevented either by the unions themselves or, failing that, by prompt government action. If voluntary methods fail, it is recommended that the NLRB, at the request of the employer or union concerned, appoint a referee who would be required to conduct hearings and render his award within a given period. The award would be final and enforceable by injunction.

Would Prevent Unlawful Picketing

On the subject of strikes, boycotts, and picketing by minority unions when a majority union has been certified as bargaining agent, the statement says "such actions by minority unions are an attempt to force an employer into violation of law. They cannot be tolerated in a democracy." As a remedy, the statement proposes that the NLRB be required to apply to the courts for a restraining order against the offending union.

Violent and unlawful picketing is scored in the statement, which says that this, more than any other single action of labor, "discredits the union and undermines public faith in collective bargaining." The Congress should take any legislative steps necessary to prohibit picketing which bars ingress or egress from a plant, and other forms of violence in the conduct of a strike or the maintenance of a picket line, the statement adds.

The committee recommends also that the Clayton Act be clarified so as to prevent unions from engaging in actions which restrain trade and commerce and which are not connected in any way with labor disputes. The statement declares the Clayton Act has been stretched far beyond its initial purpose in granting special immunity to labor groups in such situations.

The committee rejects compulsory arbitration and super-boards and says on this subject:

"As long as either side expects the government to act, the hope will persist that more can be gained by appealing to the government than by agreement. Unless it is crystal clear that the government will not intervene to set terms of labor-management agreements, strikes to compel government intervention will continue to occur."

Therefore, the statement declares, legislation providing for super-boards, compulsory arbitration, government seizure or other coercive devices will retard rather than advance the development of collective bargaining and to that extent will jeopardize the maintenance of a free economy.

Hoffman said the statement is the responsibility of the CED research and policy committee and not of the board of trustees or the research staff. The present statement, he added, is confined to collective bargaining but a comprehensive study by CED also is under way covering other matters such as industry-wide bargaining, the closed shop, secondary boycotts, and the monopolistic power of unions.

Business Outlook For 1947

(Continued from Page 7)

has passed its peak as far as prices are concerned. It hit that last May. It is now in a period of decline.

No Boom Probable

The stock market break of recent months was long overdue. Earnings of business in the future are going to be less per dollar of sales. It is a world trend. This means returns on capital invested are going to be less. Interest rates will go no lower but may stiffen a bit. Therefore, it is doubtful whether a quick stock market recovery is ahead. Most keen students feel it may stabilize around present levels for a while and in fact, with respect to some stocks, recede still further. That is also my analysis of it.

Retail trade is levelling out. Soon it will enter into a decline. Many retailers are overlooking the fact that during the war the public's dollar could only buy soft goods. Durable goods were not available. Now they will become available in increasing quantities. Housewives will replenish their needs in durable goods and not rush pell mell to buy soft goods.

The fur business, of course, is in rather a chaotic state. There will be more failures in this industry. The demand for good jewelry and costume jewelry reached its peak before the holidays. Prices haven't broken materially but they will recede. One or two jewelry failures have already appeared and more will follow.

The agricultural price structure cannot possibly hold beyond the close of the party legislation. Even in this respect many agricultural prices today are far above parity and it is logical to expect them to decline. The farmer is in good shape financially. If he will husband his reserves that he can still accumulate under government controls and be careful not to expand, he ought to be able to weather any storm.

Remember you must realize in the years ahead no business will succeed that does not do its level best to have an equitable labor policy. Irrespective of your past disappointments, continuously strive for labor management cooperation.

Buyers' Market Close

Let me summarize what may be ahead of us. I submit it only as my view; it may be contrary to the view you hold. I would be dishonest if I did not tell you what I actually thought. I would rather be frank in this and have it prove erroneous than to be cagey

and hedge my statements with saving clauses.

I look for a buyers' market to be at hand pretty generally in '47. I look for the keenest competition American industry has ever faced. There should be a slight recession in '47. It would surprise me if it continued for more than six or seven months. I think we will get our price structure and labor-management problems stabilized in the next twelve or fourteen months. It will be a slow process but it will be a corrective process, day by day. I think we can look forward to a reasonable prosperity in '48 and with any business judgment at all, when we do resume the upward trend in '48, it ought to be good for several years.

I think such social progress as we have made and which is still demanded will have a much better foundation in the years ahead. The recent election was not a protest against social progress. It was a protest against social reform that did not rest upon a sound foundation or that which was ill-conceived. Security is still the objective of the people of the world. We must recognize the demand and work for a sound program—one that can be absorbed within a sound economic policy. That is statesmanship and an unsound program is politics.

America is blessed with a wealth of natural resources. However, other nations are equally blessed and these nations have made no such progress. The cause for the progress in our nation has been the representative form of government which in the past has given an incentive for performace and which ensures a freedom of operation, thought, and expression; which places a high value on both human and property rights. It is these constitutional guarantees that give our nation its resiliency. We have faced many problems in the past. We always solved them and bounced back to our feet. There is no reason why we can not do so in the years ahead. If we do, then perhaps we will be less concerned about a Russian philosophy for the sample we exhibit to the world will be so much superior to the best sample that a Communistic philosophy can produce that people will be rushing to buy our goods and striving to duplicate our economic way of life.

We can and should strengthen our determination and make more sound our program for recovery through a sincere and basic spiritual revival. In the last ten years our people contributed one billion dollars less to the churches of America than they had in the preceding decade. The best way to show our appreciation of the freedom of religion we enjoy is to support our religion not only with money but with our minds and our hearts. Nothing I can think of will so dismay and upset a Communistic program.

More – But Not All – On Discounts

(*Continued from Page 10*)

regarded as an inducement to pay. Naturally, those who are able to do so wish to avoid the high financing charge and they pay cash. But so do those who cannot pay cash wish to avoid the financing charge, and they arbitrarily do so.

Abuses of the Discount

Were it not for the abuse of the cash discount credit managers would have no objection to it. The author, sitting at the credit and collection man's desk, has had his fair share of trouble with this problem. He has always felt, from the standpoint of making his job easy, the cash discount induced the wrong customers to pay. It did not have any effect on the class of customers it was wished most to affect.

May the cash discount be abolished by certain businesses but retained by others? All creditors are competitors for the debtor's cash. When a debtor has insufficient cash to meet all his obligations his selection of which to pay may be governed by many factors. One of these is the financing charge. Logically, the debtor will pay those creditors who subject him to a penalty if he does not pay. As between two creditors, one of whom offers a cash discount and the other net terms, the creditor offering the cash discount will be preferred.

Credit Men in Competition

Credit managers are well aware they cannot reform credit practice, acting individually. They, too, are subject to the influence of competition. Where there is uniformity of terms competition is limited to the manner of handling the terms. Obviously, if competitors are agreed the cash discount should be abolished, the problem is much simplified. The most logical time to change terms is with a change in price and the more radical the price change, the easier will it be to cover the difference in terms. If the price be lowered, the buyer may accept the loss of the discount privilege more kindly. The seller may expect some of his customers still to continue to deduct the cash discount after it is withdrawn. They will need to be handled with the utmost firmness and tact.

Judgment is based upon experience. Fortunately, a business deciding to change its terms is not exactly pioneering. A considerable number of businesses have discarded the cash discount in their terms. No doubt many such businesses would willingly report their experience were they aware of the interest in it.

Might not business well consider the complete overhauling of its terms and collection procedure? In the early days of the country's growth and the development of its business, financial aid was greatly needed; hence long terms. Today, with rapid turnover of goods, rapid transportation and almost instantaneous communication, long credit terms are less essential. Drafts and notes were once common in American business. They were displaced by the open book account. End of month terms have become so common many buyers assume that privilege, whether stated or not, goes with the terms. If a business is considering discarding the cash discount there is offered for discussion and consideration, but without recommendation, the following: "Terms, net E. O. M., subject to sight draft."

THE CONTROL OF CREDIT

Far-Sighted Policy Will Help Industrial Progress

by A. W. HILL
Credit Manager, E. I. du Pont de Nemours and Co., Wilmington

Credit men are generally visualized as a very special breed of man—inherently conservative and with ice water coursing through their veins. This is an outmoded idea. It merely goes to prove that once a man has established a reputation, be it good or bad, he is trade-marked for a long time.

Yesterday's combination bookkeeper-collector was frequently labeled "credit man." This wholly inadequate description is not intended as a reflection upon his capabilities or the importance of the job. Indeed, he was generally held in high esteem by all of his associates. He gave to today's credit fraternity a rich inheritance.

But industrial progress wrought many changes in the conduct of business. Out of one of them evolved the credit man—a man whose training has covered such subjects as: balance sheet analysis, operating statements, liens, guarantys, subordination agreements, chattel mortgages, business law and correspondence, a Dale Carnegie course, etc.

The term "industrial progress" is altogether too general to adequately justify the employment of thousands of whole-time credit men. Let us examine more closely the present day need for those charged with "guarding the Nation's receivables."

Most Transactions Depend on Credit

It is safe to say that more than 90% of the dollar volume of all commercial transactions involve credit, in one form or another. From the moment that raw materials move from mines, fields, forests, wells and oceans until finished products finally reach ultimate consumers, credit enters the picture. What is credit? Like the patched seat of the little Dutch boy's trousers it covers a lot of territory. It involves the whole present economy—producers, sellers, purchasers and any financing medium. If forced to a broad explanation of the term, the best I could offer would be: "The power to secure the present transfer of the ownership of wealth, expressed or measured in dollars or other monetary standard, by a promise of the buyer to pay an equivalent at a future time, based on the confidence of the seller in the ability and willingness of the buyer to meet such obligations promptly." That takes a deep breath to get out but I think it fills the bill.

The road of industrial progress has been marred by the wrecks of good ideas because they ran into some unforeseen obstacles on the "booby-trapped" road toward success and profits. By way of illustration: of the 1,000 plus automobile companies which have entered competition, only thirteen are left in the running. (General Motors, Ford, Chrysler, Studebaker, Nash, Hudson, Packard, Willys, Crosley, Kaiser-Frazer Bobbi-Kar, Tucker and Darrin). Of 1,000 truck makers that have at one time or another been in business, only 40 are left. Between 1910 and 1916 six out of seven companies incorporated for manufacturing autos went out of business. Between 1929 and 1939 two out of three firms making autos went into receivership. Among the reasons given for such a high failure rate are: failure to keep pace with engineering changes, inefficient production methods and mediocre marketing programs. (Wall Street Journal—May 28, 1946.) An examination of the fate of companies in other industries would likely reveal an equally high business mortality rate. As a matter of fact, it has been said that while medical research has increased human longevity 15% during the past forty years, the average life of a business is still five and one-half to six years with the greatest percentage of failures in the first three years.

Concerning the record of business fatalities we should eliminate the war years. During that period bankruptcies largely disappeared. Uncle Sam was footing the bill. As we advance into the post-war era, present indications are that an increasing number of concerns will fall by the wayside. This was the pattern following World War I when failures steadily inclined from a low of 6,451 in 1919 to 23,676 in 1922.

What Is A Sound Credit Policy?

Upon these brief remarks I rest my case. There *has been* unanswerable justification for the prominent place which credit men have gained in the present economy. With respect to the future they have a tremendous job cut out for them. Problems of distribution and credit are, even now, gaining momentum. Any plans involving peak distribution of merchandise must have "credit" as a starting point or foundation. One of the most talked of subjects today is, "Who will control consumer credit?" To me a more pertinent question seems to be "What kind of credit will there be to control?" To put it another way "Will all consumer credit be sound tomorrow?" This depends upon our sights. If we are shortsighted and want transient prosperity, we'll go in for unsoundness. If we are far-sighted and long thinking and sincere in wanting prog-

ress, we'll go in for soundness. The sound way may not be the easiest, but experience has proved it to be the best.

What is meant by a sound (and workable) credit policy? It seems to me that it is one that helps to build repeat business and goodwill; that recognizes that credit men are not paid for the orders which they turn down but, rather, for the business which they build up; that trains credit men to separate the "wheat from the chaff" with full appreciation that while a lost sale results in lost profit, credit losses include the cost of merchandise, processing, transportation, general overhead *and* profit.

Four Salient Points

To hope to accomplish these goals, effective operation of a well defined program is necessary. Here are four points which I have chosen for brief discussion, which may well be embodied in any such program.

1. Sales-Credit Relationship
2. Customer-Credit Relationship
3. Measuring Credit
4. Collection Procedure.

As to point number one, the success of any sales program is dependent upon a harmonious relationship between credit men and salesmen. A clear, sympathetic understanding of each other's objectives is absolutely essential. One of the best means of accomplishing this end is for salesmen and credit men to get together. Such contacts may be made in branch offices, in the field or at home offices.

It has been my experience that associations of this nature have meant much. Through them ideas and information have been exchanged which never could have been put across on paper; collections have been made which otherwise would have resulted in losses; sales have been made which otherwise would have been rejected; warm friendships have developed where otherwise cold business formality would have reigned. In my opinion, these things combined have contributed immeasurably to the desired sales-credit relationship.

The Consumer Relationship

We now come to the customer-credit relationship, which is of equal importance to point one. Only quality correspondence and customer contacts by properly trained credit men can create the type of relationship that will measure up to the requirements of a sound credit policy, acceptable to sales and top management.

Let us consider "correspondence" for a moment. Perhaps those things for which we, as credit men, strive can best be summed up by what someone has termed the seven "C's":

1. Clearness (Simple words—punctuation).
2. Completeness—all of the facts.
3. Conciseness—To the point.
4. Correctness—Preparation of facts.
5. Courtesy—Because it pays.
6. Candor—Admitting mistakes.
7. Character—Our own personality.

No two men express the same thought in the same way. But those credit men who strive to "ring the bell" with "seeds of goodwill" sown rather than "seeds of antagonism" generally achieve the best results.

The second fundamental to an ideal customer-credit relationship is that credit men should personally know as many customers as possible. In the same breath I suggest caution against fraternization, particularly with marginal risks. Credit men have gotten themselves into embarrassing situations and trouble by being overzealous in that direction.

Speaking of trouble reminds me of the client of a bank who, with beads of perspiration popping out on his forehead interviewed one of the officers for a loan. "What's the matter, Jim," said the banker, "you look very nervous and upset." "Matter?" said Jim, "I'm on the verge of collapse. I've got a wife, a sweetheart and a note here at the bank and they're all thirty days past due."

To do the job expected of them, however, credit men cannot be anchored to their desks. My own company, recognizing this, has encouraged customer-contacts. The results have paid dividends. Through them we have obtained many forms of protection such as confidential information, personal guarantys, subordination agreements, life insurance policies, etc. Lacking these, it is safe to say that sales in many instances would not have been approved on credit terms.

In addition, collection problems have frequently been worked out through customer visitation, without sacrifice of goodwill. Our thought with respect to such situations is that when and if slow payers do "get on their feet" we want a "Welcome" sign on their doors when our salesmen call.

The Credit Limit

Measuring credit—point three—is a subject which is always associated with the familiar three credit "C's," character, capacity and capital. Within recent years a fourth "C"—conditions—has been appropriately added.

At some time or other every credit man has been asked to explain his academic method of arriving at a line of credit. The answer is that there is no fixed formula. The extent to which any customer is entitled to credit is entirely a matter of individual judgment on the part of the lender. Our concern then is to maintain a Credit & Collection Department whose trained personnel may be expected to exercise good judgment. To be capable of arriving at sound decisions, a credit man must be acquainted with all available facts concerning the applicant for a loan whether the loan be in the form of cash, real property or merchandise. He must obtain knowledge of moral integrity; be able to support a conclusion that the prospect has the ability to trade or operate at a profit and finally determine that the intended recipient has exhibited a willingness to risk a commensurate share of his own capital in the business venture. Here then we have the three "C's" at work which credit men should look for in support of credit. Conditions—the fourth "C"—are generally something over which a lendee has little or no direct control.

A continual flow of information crosses the desks of credit men. It must be carefully analyzed and scrutinized day in and day out. Business ventures are as

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LATIN-AMERICAN CREDIT GOOD

37th Semi-Annual Survey Shows Good Condition

by PHILIP J. GRAY

Manager, Foreign Credit Interchange Bureau

Despite the fact that six countries were reduced from the "Prompt" to the "Fairly Prompt" Collection classification, all Latin-American markets achieved top rank in the Credit classification in this 37th Semi-annual Survey of Commercial Credit and Collection Conditions in Latin-America covering the last-half of 1946. This seeming contradiction is explained by the fact that delayed collections were ascribed almost entirely to governmentally-imposed, exchange regulations, rather than to any delinquency on the part of the individual customers. In the majority of countries under survey, credit and collection indices have now risen steadily for six and a half years, according to the judgment of United States manufacturers and exporters whose contributions to these surveys represent their actual credit and collection experiences in the markets covered. Bolivia, listed only as "Fairly Good" from the Credit standpoint in the last Survey, was returned to the top listing of "Good" this time, while collection-wise, Bolivia, Chile, Costa Rica, Ecuador, Nicaragua and Peru dropped from "Prompt" to "Fairly Prompt." All other Latin-American markets were rated as "Prompt."

Few Changes In Terms

Only minor changes were recorded in the comparison of terms granted during the last half of 1946 with those extended during the year 1945. Fewest changes in terms were recorded in Haiti and Puerto Rico where 96% of the members indicated "No Change," and in Cuba, Dominican Republic, El Salvador and Uruguay where 95% made a similar report of unchanged terms. Five percent of members reporting indicated that they had liberalized terms in Argentina, Bolivia, British Possessions, Colombia, Cuba, French Possessions, Honduras, Nicaragua, Paraguay and El Salvador. Greatest reduction in terms was recorded for Peru where 7% of the members indicated they had extended "Less Liberal" terms with 6% reporting similar reductions in Chile and Costa Rica, and 5% reporting terms reductions in Bolivia, Ecuador, French Possessions and Nicaragua. It is noteworthy that in the previous Survey members reported no terms changes in eight markets, while in this present Survey all markets were subject to minor adjustments, indicating that the collection delays encountered had brought about corrective measures as regards terms in an effort to maintain payment schedules.

Increased Export Volume with all Latin-American markets was recorded in this 37th Semi-annual Survey comparing 1946 Volumes with those of 1945. Greatest increase was recorded in Brazil with a 1946 Volume that was 193% of that enjoyed in 1945. Argentina registered 190%, Cuba 183%, Mexico 181% and Puerto Rico 180%. Lowest increases for 1946 as compared with 1945 were recorded in Colombia with 133%, Gautemala with 137%, Chile 138%, Ecuador 139%, and El Salvador 142%. It cannot be emphasized too strongly that this Export Volume Survey covers the immediate post-war period, in which some members were able to resume full scale exports to old markets while others found it possible to send only token shipments becasue of continued shortages of material, reconversion delays, and similar handicaps. Once again wide divergence was evidence in these Volume reports which ranged from extraordinary increases in 1946 over 1945 to slight decreases below par. Again we must cite for the record the fact that about 20% of the members contributing to other features of the Survey failed to submit Export Volume percentages, most of them explaining that their failure to do so was because of the "non-availability of such data" at the time the Survey closed.

Cuba Heads The List

Cuba led all Latin-American markets in the top Credit Classification of "Good," replacing Panama which occupies thirteenth place in the present Survey. Closely following Cuba by only a few points are Dominican Republic, Mexico, Argentina, Puerto Rico and Venezuela. At the end of the list, but still safely within the "Good" Credit Classification are Ecuador, Costa Rica, Peru and Nicaragua. Bolivia which was only rated as "Fairly Good" in the previous Survey, improved its position eighteen points to return to the "Good" division. In this 37th Semi-annual Survey, eleven Latin-American markets showed improvement, while thirteen lost points in the Credit index.

Ten countries shared the top rating of 100% in the "Prompt" Collection classification—they were, Argentina, Brazil, British Possessions, Dominican Republic, Haiti, Honduras, Puerto Rico, Uruguay, Venezuela and Cuba. Losses of thirty-two points in the Collection index were recorded for Costa Rica and Peru, while losses of thirty-one points for Chile, thirty points for Bolivia, twenty-seven points for Nicaragua, and twenty-two points for Ecuador were sufficient to dislodge these countries from the top Collection position

they had previously held, and placed them in this present Survey in the second Collection classification of "Fairly Prompt." Only two countries, Cuba and Colombia recorded improvement in Collection figures, while thirteen countries declined in ratings, all however, in a minor degree, not sufficient to change their Collection status.

208 Firms Contributed

The 208 American manufacturers and exporters contributing to this survey are located in all parts of the United States. They represent a veritable cross-section of American products, the majority of them reporting on all the markets included in this survey. In compiling this survey, no consideration is given to the question of Governmental debts or service obligations, and the classification of "Credit Conditions" refers to the situation within the various Latin-American markets from the commercial point of view only, as judged by American manufacturers and exporters. Comments made by those replying to the survey under the general heading "Collection Conditions" may be considered as indicating the current trend based on the definite experience of American manufacturers and exporters having commercial collection items in the markets surveyed. The "Terms" feature of the survey simply reports whether members' terms during 1946 to Latin-American buyers were "Unchanged" or had been "Reduced" or "Increased" over those granted during 1945, and the replies have been listed country-by-country in a percentage figure. The "Export Volume" survey requested a percentage figure comparing the value of 1946 exports with those of 1945.

CREDIT CONDITIONS

Insofar as the present Semi-annual Survey is concerned, which covers Credit Conditions prevailing in the last six months of 1946, the members of the Foreign Credit Interchange Bureau once again rated all Latin-American markets as "Good." A comparison of Credit and Collection Index figures by country is attached hereto, and we list below "Good" Credit markets in the order of their standing in this classification.

Good: Cuba, Dominican Republic, Mexico, Argentina, Puerto Rico, Venezuela, Netherlands Possession, British Possessions, Honduras, Guatemala, Uruguay, El Salvador, Panama, Haiti, Paraguay, Colombia, Brazil, Chile, French Possessions, Bolivia, Ecuador, Costa Rica, Peru and Nicaragua.

Fairly Good: None **Fair:** None **Poor:** None

COLLECTIONS

This is the first of ten Surveys in which all markets failed to reach the top Collection classification of "Prompt," but this is also the twelfth consecutive, Semi-annual Survey in which not a single one of the markets under consideration is rated as "Slow" or "Very Slow" from the point of view of Collections. The current survey of Collections in percentages of replies received is attached hereto, in a country-by-country listing. Markets are listed below in the order of their rating in the "Prompt" Collection classification.

Prompt: Argentina, Brazil, British Possessions, Dominican Republic, Haiti, Honduras, Puerto Rico, Uruguay, Venezuela, Cuba, Panama, Colombia, Netherlands Possessions, Guatemala, El Salvador, French Possessions, Mexico and Paraguay.

Fairly Prompt: Chile, Ecuador, Costa Rica, Peru, Nicaragua and Bolivia.

Slow: None **Very Slow:** None

TERMS

This survey once more demonstrates the fact, brought out in previous reports, that "nine out of ten" U. S. Exporters during 1946 continued to give their Latin-American buyers the same accommodations granted them during 1945. A country-by-country listing of the terms survey reported in percentages of replies received is attached hereto.

EXPORT VOLUME

A report of the volume of members' 1946 export sales as compared with 1945 in a country-by-country survey is attached hereto. It is emphasized that an extremely wide range was evident in the reports on this feature of the survey, and due caution should be exercised in the use and interpretation of these "general-average" percentage figures, which represent resumption of business in our first postwar year of trade.

The relative standings of the various Latin-American countries will be found tabulated on pages 28 and 30.

Financial Expert Looks For Higher Rates of Interest

The cost to corporations of borrowing money is likely to rise over the next few years, even if interest rates on Government securities are effectively pegged at present levels, Dr. Jules I. Bogen, editor of the Journal of Commerce and Professor of Finance at New York University, told the Conference on Finance of the American Management Association at the Hotel Commodore, New York. Dr. Bogen is vice-president of the AMA.

"The huge size of the public debt makes it necessary for the Federal Reserve banks and the Treasury to co-operate closely to support the market for Government obligations," Dr. Bogen said. "To prevent a sharp rise in Treasury interest payments, to facilitate refunding of maturing obligations and to protect institutional holders of Government securities from depreciation of their holdings, we may expect interest rates on the national debt will continue to be pegged at rates close to those prevailing today."

"Pegged interest rates on Government securities, however, do not mean that interest rates on corporate borrowing will be similarly stabilized. Interest rates on corporate financing do not bear a fixed relation to yields on Government securities of corresponding maturities. Rather, the differential between yields on Government and on corporate obligations varies in re-

sponse to four major influences. These are:

"1. The volume of available offerings of the two classes of obligations. During the war, Treasury securities were sold in great profusion, whereas corporate financing was at a low ebb. This caused the yield spread to narrow to a marked extent. By contrast, the next few years could well witness some contraction in the volume of Treasury securities held outside Government agencies, while corporate financing could expand considerably with a high level of business activity and a high price level.

"2. The value that investors place on a protected market for Government securities, as against the relatively free market for corporate obligations. Institutional investors will doubtless place a higher value upon the stabilized market for Governments in an era when corporate bond prices may pursue a declining trend, which would further widen yield differentials.

"3. The credit risk, minimized in an era of large corporate profits, is taken far more seriously when the profits outlook becomes clouded. Doubts about future earnings, as has been seen in the case of the airlines, makes lenders more insistent upon adequate compensation for assuming credit risks.

"4. Operating costs of financial institutions are rising. This puts pressure upon them to increase their revenues to offset higher costs, as is the case with other businesses. Since pegged interest rates on Government securities prevent them from securing a higher return on this part of their portfolio, except through lengthening maturities, the pressure will be so much greater to obtain higher yield from corporate obligations.

"These factors will tend to raise the interest cost of corporate financing, both short and long term, over the next few years."

The Control of Credit

(Continued from Page 15)

changeable as the winds. Today an account may be as solid as the Rock of Gibraltar. Within weeks the same concern may be compelled to seek relief and reorganization through the bankruptcy courts. Witness the fact that a yearly average of 320,000 listings out of approximately 2,000,000 names appearing therein were withdrawn from Dun & Bradstreet reference books during each of the years 1941-44 inclusive. Also that during the last six months of 1946, 800,000 (withdrawals and revisions) took place in Dun-Bradstreet ratings. It is clear, then, why every credit department is obliged to continually develop current information through Dun-Bradstreet, credit groups, banks, supply houses and from customers direct. More than ever before current factual information will be required in the months ahead by most credit departments because of uncompleted reconversion programs, unbalanced inventories, taxation, etc.

With respect to the issuance of financial statements, it has been our experience that more and more customers are cooperating, provided the accommodation involved justifies requests for such detail. Those who do object usually do so for one of two reasons—either the statements disclose such poor conditions that no credit could be supported if they were exhibited or in some cases companies are so strong financially that they can command their credit needs without issuing figures. It is generally easy to determine to which class a customer belongs.

Unfortunately, some statements received are not clear and require supplementary information. Some answers received by us are similar to that given by the sailor who when asked what had happened to his money said, "Part went for liquor, part for women and the rest I spent foolishly."

Collection Procedure

My last point—Collection Procedure—has already been touched on. It does, however, merit additional comment. All well organized credit departments insist upon a regular, reasonably timed follow-up of past due accounts. The reason for this is two-fold. First, the longer an account is outstanding the more difficult it becomes to collect. Second, a rapid accounts receivable turnover means reduced working capital requirements.

Greatly reduced "days' sales outstanding" was quite general during the war days. I venture the opinion, however, that a regular follow-up system of past due accounts, even though they might have been with Government agencies, contributed to that condition. It is well to remember, too, that profit expressed as per cent return on investment increases as day's sales outstanding decrease.

With respect to our collection policy, it can be said that toward those who exhibit an honest desire to pay their debts our attitude is charitable. For those who ignore their accounts or refuse to make satisfactory arrangements for settlement, we show no mercy. Our records are filled with both types.

Don't Give "Special" Terms

Collection procedure may be summarized by saying that it is our policy to collect on the basis of terms of sale set by the respective sales organizations of the du Pont Company. Speaking of terms, I cannot refrain from adding these thoughts since collections and terms go hand in hand.

1. Special terms should be discouraged. Such considerations generally amount to price advantages for the recipients. This obviously is unfair to good customers who do meet "standard terms."

2. It is always easy to grant special terms, but difficult, if not impossible, to contract them.

3. Sales should be promoted on the basis of price, quality, sales services, good deliveries, etc. Sell merchandise—not credit terms.

4. "Special" terms offered as a measure of meeting competition generally result in competition going one better. Terms competition is deadly. It has been the cause of wrecking a good many otherwise healthy businesses.

This then is my conception of a few factors which contribute to a sound credit policy: maximum sales, minimum credit losses and investment in accounts receivable.

Bankruptcy Curve Leveling Off

Six Year Decline in Failures Shows Signs of Ceasing

The long decline in the number of new bankruptcy cases filed annually, which began in 1936 and which became very precipitous during the war years, continued in 1946, but at a diminished rate, declares Edwin L. Covey, Chief, Bankruptcy Division, Administrative Office of the United States Courts.

The first quarter of the fiscal year showed a smaller number of cases begun than any of the three subsequent quarters and although the increase in those quarters was not great it was sufficient to indicate that the descending curve has flattened out and some increase may be predicted for 1947. The extent of the decline which has taken place is shown by the following table of new cases commenced in each of the last 10 years:

Bankruptcy cases commenced in the district courts

1937	57,485	1942	52,109
1938	57,306	1943	34,711
1939	50,997	1944	19,533
1940	52,577	1945	12,862
1941	56,332	1946	10,196

Cases terminated in 1946 were 14,269 leaving 17,388 cases pending at the end of the fiscal year. The Fifth Circuit with 2,434 cases filed in 1946 compared with 2,429 in 1945 was the only circuit to show an increase in filings.

While it is true that the proportion which costs of administration bear to total realization in asset cases depends somewhat upon the size of the estate administered, a detailed break-down of costs by district has proved useful in individual instances to both judges and referees. This office has prepared and has on file information by individual referee as well as by district.

The 14,269 cases terminated in 1946 were of the following classes: 1,473 asset cases, 1,283 nominal asset cases in which all proceeds realized were expended in paying administrative costs, 7,190 no-asset cases, 1,842 successfully completed proceedings under special relief chapters, and 2,481 cases not included in the foregoing groups because they were dismissed. In the 1,473 asset cases closed in 1946, the total net proceeds realized were $14,194,733 as compared with $19,776,003 realized in the 2,547 cases closed in 1945. The average realization per case in 1946 was $9,636.61 as against $7,764.43 in 1945. The percentage of costs of administration to total realization decreased from 21.6 per cent in 1945 to 19.3 per cent in 1946, as was to be expected since larger estates cost relatively less to administer than smaller ones.

The average total realization per case ranged from $2,293.29 in the Sixth Circuit to $18,843.88 in the Eighth. The percentage cost of administration ranged from 10.5 per cent for an average estate of $16,619.41 in the Fifth Circuit and of $18,843.88 in the Eighth Circuit to 27.7 per cent for an average estate of $9,724.29 in the Second Circuit. The high average cost of administration in the Second Circuit was due in part to the fact that the attorney fees of the attorney for the trustee in that circuit amounted to 11.8 per cent of the total realization compared with a national average of 6.9 per cent. The costs of administration in relation to the size of estates administered were again low in 1946 in the Fourth Circuit where 58 cases averaging $9,615.90 in assets realized were administered for 15.7 percent in comparison with the United States totals, where estates averaging $9,636.61 were administered for 19.3 percent.

The total distribution in all asset cases in 1946 was as follows:

	Amount	Percentage of total
Total distribution	$14,194,733	100.0
Paid in lieu of exemptions	27,733	.2
Paid priority creditors	1,877,968	13.2
Paid secured creditors	4,583,763	32.3
Paid unsecured creditors	4,571,770	32.2
Other payments	398,467	2.8
Total administrative expenses	2,735,714	19.3
Administrative expenses:		
Receivers' commissions	82,043	.6
Receivers' expenses	36,745	.3
Trustees' commissions	298,305	2.1
Referees' fees and commissions	119,286	.8
Referees' expenses	124,081	.9
Auctioneers' fees and expenses	105,466	.7
Appraisers' fees and expenses	41,236	.3
Creditors' attorney fees	51,933	.4
Trustees' attorney fees	982,932	6.9
Receivers' attorney fees	91,104	.6
Bankrupts' attorney fees	120,172	.8
Rental expenses	58,165	.4
Trustees' and all other expenses	623,949	4.4

Attorneys Get Largest Fees

From the above it will be noted that of the total realization of $14,194,733, the referees received $119,286 or 0.8 of 1 per cent for fees and commissions and $124,081 or 0.9 of 1 per cent for expenses. The fees paid the attorneys for the trustees represented the largest expense item and amounted to 6.9 per cent of the total realization.

The referees' average costs per case increased from $74.52 in 1945 to $84.24 in 1946. These average costs by circuits ranged from $48.48 in the Sixth Circuit to $125.67 in the Seventh. This wide difference in the average costs was due to the difference in size of estates administered. In the Sixth Circuit, cases averaged $2,293.29 in total realization while cases in the Seventh averaged $10,636.80.

The average expenses of administration in nominal asset cases in 1946 were $96.89, slightly below the 1945 figures. These costs ranged from $52.43 in the Eighth Circuit to $134.27 in the Third. The referee's average costs in nominal asset cases rose from $28.42 in 1945 to $30.49 in 1946. These ranged in 1946 from $20.06 in the Eighth Circuit to $35.01 in the Third. With the ex-

ception of the Eighth Circuit, where referees' costs were particularly low, the circuit figures followed very closely the average of the country.

The marked variance between circuits in the referees' average expenses per case in no-asset cases is clearly shown. The Fifth Circuit maintains its position of lowest cost for these cases with an average of $7.22 per case. These low costs again were the result of the particularly low charges in the Northern District of Alabama where 732 cases were administered for an average of $3.85 per case. The highest referees' average cost per case was reported for the Third Circuit where the average was $27.32 per case. The national average for referees' expenses rose to $19.70 in 1946 from $17.91 in 1945. This rise in expense was occasioned by the large drop in the volume of no-asset cases administered. There were only 7,190 no-asset cases administered in 1946 as compared with 11,263 cases in 1945.

The over-all referees' average expenses for all types of cases administered increased from $28.36 in 1945 to $30.65 in 1946. The general increase in the referees' average expenses is the effect of the decreased volume of cases available for termination.

Few Special Relief Cases

Little use was made of the special relief chapters in 1946 with the exception of chapter XIII, wage-earner cases. Under this chapter 1,371 cases were filed in 1946 compared with 1,248 in 1945. The Northern District of Alabama with 1,176 cases of this type was far ahead of any other district.

Of interest to Credit Men is the announcement in the report of the judicial conference of the senior circuit judges that Mr. Covey, representing the Administrative office, is engaged in a survey and plan for a reorganization of the system of referees in bankruptcy provided for in the recently enacted salary bill for referees; that in this connection Mr. Covey and his staff were conferring with the district judges and other interested persons in the various districts in order to arrive at a plan as satisfactory as possible to all concerned, and were keeping the Committee on Bankruptcy Administration informed of their work; that the Committee considered that good progress was being made and expected that a plan for the determination of the number and salaries of referees under the new act would be ready for consideration by the Conference at a special meeting to be held in April, 1947, and that according to this schedule operation under the new act would begin on July 1, 1947.

The Conference reaffirmed its previous approval of the proposed amendments to § 57j, § 64a (1), and § 116 of the Bankruptcy Act and recommended their early enactment by the Congress.

After consideration of the proposals of the Committee for amending § 64b, the Conference referred the matter back to the Committee with instructions that the recommendations be circulated throughout the judiciary in conformance with Conference policy, and that a further report to the Conference be submitted at its special session in the spring of 1947.

It was ordered that, in the event legislation is proposed under which § 75 of the Bankruptcy Act would become permanent, the Conference recommend the abolishment of the offices of Conciliation Commissioner

(Continued on Page 25)

Tax Court Rules On Thorny Real Estate Problems

A troublesome question of long standing as to whether the incidental ownership of residential property by an individual, engaged primarily in professional or other business activity, may constitute the ownership of property used in a trade or business was resolved by the Tax Court in two cases reviewed below. The issue in these cases was whether loss on the sale of property occupied by a taxpayer, prior to his removal to another city, shall for income tax purposes be treated as ordinary or capital loss.

Until 1939, taxpayer, in Leland Hazard v. Com., was a lawyer practicing in Kansas City, Missouri. In 1939, he moved to Pittsburgh, Pennsylvania. In 1930 he purchased a residence in Kansas City for $27,000, with an allocated cost of $6,000 for the land and $21,000 for the house. He made additional improvements costing $5,600, so that the total original cost was $32,600. Taxpayer, after his removal to Pittsburgh, rented his Kansas City property until its sale on November 1, 1943. While said property was rented he reported on his returns the rentals received and claimed and was allowed depreciation on the property. He claimed an ordinary loss on the sale of the property in 1943 of $6,844.92. The Commissioner determined the loss sustained to be a long-term capital loss allowable to the extent of $1,000 under Code Section 117 (d) (2). The Tax Court held that, while the 1942 Act amended Code Section 117 in some respects but excluded from the definition of capital assets "real property used in the trade or business of the taxpayer," there was nothing in the amendment changing the prior established rule that residential improvements on real estate converted into income-producing property are "property used in the trade or business of the taxpayer," regardless of whether he was engaged in any other trade or business. The Tax Court ruled that the property sold was not a capital asset, at the time of sale, and the total net loss was an ordinary loss deductible in full by the taxpayer.

In M. T. Thomas v. Com., taxpayer, an executive of a manufacturing corporation, in 1924 purchased a house in Erie, Pennsylvania, for use as a dwelling and so used it. In 1936, he moved to Warren, Pennsylvania, where he thereafter resided. The Erie house was rented after his removal to Warren and was sold in 1943 at a loss of $4,940. He deducted the said loss as an ordinary loss on his 1943 return. The Commissioner deemed the sale as one of a capital asset, limiting the loss deductible under Code Section 117 (d) to $1,000. The Tax Court held that although taxpayer's principal business was not real estate, rentals, still the property was "used in the trade or business of the taxpayer" and was not a "capital" asset as defined by Code Section 117 (a) (1). The loss was deductible in full as an ordinary loss under Code Section 23 (e).

PLEASING PEOPLE PAYS

Firm With Good Public Relations Is a Good Credit Risk

by J. E. BULLARD
Special Writer

Always there are business men who invite trouble by not giving first consideration to the publics they serve, by forgetting that, in the final analysis, the customer always is boss. During war and postwar shortages, when the demand is much greater than the supply, it is easy to overlook the importance of pleasing people. In any case it is difficult to keep all customers satisfied. Yet, the entire future of the business may depend upon how successfully goodwill has been retained.

The careers of two men who became eminent in the same industry show what can happen. One of these men began his business career as an office boy. He had to go to work so young his years in school were cut short. But he was brimful of energy, lacked nothing in self-confidence and was possessed of an insatiable curiosity. These characteristics helped him in winning promotions later but in his early office boy days sometimes got him into trouble. Being blessed with uncommon selling ability, however, he always was able to sell himself back into his old job anytime he was fired.

Eventually he was placed in charge of a company which was losing money and with which his employers had a management contract. One of the first things he did was to take steps to make certain each and every customer was satisfied. Toward this end he started new services. He spared no effort to please the people who were spending money with the company.

Gains Control of Business

Within a remarkably short time losses were changed to profits and the stock holders were so pleased they decided to retain his services and to leave him unhampered in his efforts. Therefore, they turned over to him enough proxies to give him complete control. This enabled him to choose the associates with whom he worked and to make any changes in policy he saw fit.

He made such a good record it was not long before he was able to raise the money needed to take over other properties and it was only a matter of time before he not only became one of the largest and most successful operators in that industry but also branched out into others.

All this success, all the power and the wealth he gained was due in no small measure, it is safe to say, to his conviction that pleasing people pays, especially those people his companies served. He demonstrated how deep this conviction was by depending upon the people rather than upon politicians after state controls and regulations became the rule. In other words, he put his faith in the people, lived to a ripe old age and never met the reverses some who disagreed with him predicted he would suffer.

Relied on Politicians

The other man had what could be considered a more promising start. He, too, was placed in charge of a small company which he built up into the largest in the nation. His public relations seemed reasonably good but as he gained wealth and power he tended to become more and more dictatorial. He placed more reliance upon what political office holders could and would do for him than the other man did. For this reason he was generous enough in contributing to campaign funds to give him a voice in selecting candidates. As a matter of fact this generosity was so great as to stand in the way of some of his successful candidates being seated. This was one way in which he demonstrated his desire to dictate rather than to please.

Because he was so successful in building up companies, however, because he had demonstrated he was a great manager, he had a strong following in his industry and experienced no difficulty in financing rapid expansions when he was ready. The time came when his properties experienced difficulty in breaking even due to a business recession. Also those he had supported so liberally in their efforts to win elections were voted out of power. His business empire began to crumble and at his death he was, as far as the public was concerned, a disgraced and broken old man. His accomplishments, nevertheless, demonstrated he really was a great manager, at least during his prime. Had he as earnestly striven to please people as the other man did there is good reason to believe he never would have suffered the downfall he did. He just did not have enough public opinion in his favor.

War and postwar conditions give some business men much the same dictatorial complex this man suffered from. If they get it, the chances of future success are lessened if they are not entirely destroyed. After supply and demand become normal difficulties develop. In the early 1920's well established concerns went out of business. They included manufacturers, wholesalers, department stores and small business men. Others succeeded in remaining in business even though they found

themselves in serious financial condition. One difference between those who went out of business and those who solved their problems and remained going concerns usually was a difference in the attitude taken toward pleasing people.

The degree to which any business concern succeeds in pleasing the public it serves often can be felt in what may be called the business atmosphere. Enter a given store, for example, and one feels a spirit of welcome. Everyone working there is cheerful and shows an interest in helping him to buy exactly what he wants. There is a real effort to please and a more or less happy family atmosphere. If such a store is reasonably well managed it is likely making money and probably has done so when conditions were not at all favorable to profit making.

The oldest business establishments are likely to have such atmospheres. There is a retail grocery store, for example, which is more than ninety years old. All through the war and during the shortages since a cheerful atmosphere existed in this store. There was a very evident desire to please. That phrase "Don't you know there is a war," probably never was used in this store once.

In contrast there is another store which is an old and well established firm but which came to be more and more under the management of a man who enjoys showing his authority. Even though the ownership of the store has changed this man is still there and it remains to be seen whether or not a determined effort by the new owners to please the people will undo the damage which already has been done.

The Case of the Railroads

No business organization appears to be too large or too small to be able to continue to prosper without paying attenion to pleasing the people. For years the railroads enjoyed pretty much of a monopoly in land transportation. The necessity of pleasing the people was not altogether apparent to railroad management. Then, along came the automobile and in the 1920's there was a tremendous falling off in passenger business. People began traveling by motor car. Not only did they travel short distances but long ones as well.

For example, people living in New England who spent their winters in Florida would drive south in the fall in their own cars or ride with somebody else who was driving south. Anyone who planned to drive his car to Florida and had some room to spare experienced no difficulty in filling it up with people glad to share in the expenses. That is, this was the case until in the 1930's the railroads began to try to please the people by placing in service high speed, air-conditioned trains. Then it was surprising how many of those who had become accustomed to making the trip by car found perfectly good excuses for going by train. Pleasing people began to pay the railroads. Naturally all passenger traffic did not come back to the rails in a rush but there was good evidence that had more effort been made earlier to please people there would not have been anything like the falling off in traffic which actually took place.

Not only were there coal shortages in the early 1920's due to strikes, but there were dealers who had become so accustomed to the idea that people had to burn coal, that they did not exert themselves to please people. Oil burners in those days were not as good nor as reliable as they are now. Yet people, who under other conditions would not have considered experimenting with the rather crude burners then available, turned to oil as a fuel, and the trend has been toward more and more home heating with oil and manufactured gas ever since.

A peculiar angle in this situation has been that more and more retail coal dealers in the northeast have also started selling oil, and the service they render in their oil department may be superior to that they ever rendered in their coal departments, and perhaps better than their coal service is now. Just why this is the case is hard to ascertain, but the impression gained from interviews with some coal dealers is that they prefer the oil business to the coal business. Perhaps this is because in their oil departments they have tried so much more to please the people than they have in their coal departments. It might also be due to competition and the examples set by dealers selling no fuel but oil.

Small Business Has Same Problem

There are some small business men who do not appear to grasp the importance of pleasing people. Some forty years ago a man bought a little drug store in a small mill village. When one entered the store the chances were he would not see a person in it. If he waited the proprietor would appear from the prescription department in the back. His face was long, his expression cheerless, and if he talked it would be to complain about those living in the village. He had the idea the villagers should support him and it was not his duty to please the people who lived there. Anybody who extended credit to him was taking a long chance because it was so obvious he could not possibly make the store pay unless he changed his entire attitude.

More recently a young married man bought a drug store in another small village. It was an old established store and had always done a good volume of business for the size of the community in which it was located. He started out well but his wife helped him in the store and she never was able to assume a really pleasing attitude. On her account more and more customers went elsewhere, and when he found a buyer for the business he was only too glad to sell. One person in a business organization may do more harm than a goodly number of others can undo.

A man who was using an electric motor to drive the machines in his little shop complained to the electric company from which he was buying current that his bill was too high. Apparently, no serious effort was made to please him by finding out exactly why the bill was too high for the results obtained and showing him how to reduce the current consumption. Instead, he got no satisfaction at all as he made complaint after complaint to the complaint department. Finally, he said he supposed there was nothing he could do about it. To this statement the young fellow he was talking with told him he could install a gas engine. He followed this advice. It would be interesting to learn exactly just how much such failures to please people had to do with the fact that this electric company later was

taken over and operated by the government. Certainly, if sufficient effort had been made by all the companies in that area, now served by the government, to please the people, it is unlikely there would have been as large a vote in favor of government ownership and operation as proved to be the case.

This is borne out by the fact that in those sections of the United States where the utility companies have been most successful in pleasing the people the voters have voted against government ownership and operation when given the opportunity to register their desires at the ballot box. People just do not vote against the services or the firms that really please them. An opposition vote is one due to dissatisfaction.

Typical Systems

It is worth while, therefore, to learn how some business firms succeed in pleasing the people. The first step in this direction appears to be impressing upon every person on the payroll from the top officials down that the customer is boss, that the public being served must be pleased. The experience of three men who had an idea they believed would be successful in application is enlightening along this line. They looked around to find the city where the conditions were the most favorable for the sort of store they had in mind. After finding the location where they started their first store, they adopted the policy of never arguing with a customer. Any person working in the store who was caught arguing with a customer was warned. A second offence usually meant immediate firing of the offender.

A number of stores were started in competition with this one. They imitated it closely with the exception they did not pay as much attention to pleasing people. Clerks in those other stores might argue with customers. They might give them short weight or short measure. At any rate few of these competitors remained in business very long.

There were two department stores in the same city. One pursued some policies which leading merchandising authorities considered somewhat antiquated but there was one which got results. Every employee had it impressed upon his mind that anybody who bought anything at that store and for any reason was not satisfied could get his money back immediately and without argument by bringing back the purchase. This fact was not only impressed upon the minds of those who came in contact with the customers but upon the minds of everyone, truck drivers, floor scrubbers and everybody else. The fact that the labor turnover was low probably helped in making this plan effective.

Labor turnover in the other department store was high. Heads of departments were constantly changing. If one bought anything there one week the department in which he bought it might have a new buyer the next week. The clerk from whom it was bought might not be there any longer. Adjustments and refunds were difficult to get without delay and trouble. That department store no longer is in business. The other one is, and promises to be for years to come. The store which went out of business never was as keen to please people as the other always has been but, even if it had been, with the high labor turnover it suffered it is doubtful that it could have succeeded in giving anything like the satisfactory service the other always has and does now.

Doctor Goes Into Business

About a hundred years ago a doctor started a drug store for the express purpose of providing facilities for the proper compounding of prescriptions. This store was not started or operated primarily for the purpose of profit. The aim was to provide a service the doctor was convinced was needed in his little city. Therefore, the manager the doctor placed in charge had it impressed upon his mind that service to the people came first, last and all the time.

That service idea not only pleased the people but the store is now the largest and the most profitable one in the city. The policy of employing local high school students part time and then giving them full time employment after they graduated from high school and perhaps a school of pharmacy was adopted early. That seems to have made it easier to instil in them the spirit of service. One man who started in this manner became a junior partner and later, when the firm was incorporated, the executive head of the firm. He was with the store for more than fifty years, served for a time as mayor of the city and died in the store.

Other high school students who had not definitely decided upon their life work came into contact with the local physicians and prepared themselves for a medical career. One of the reasons for the success of this store in pleasing people certainly is the fact there is such a small labor turnover. Another is that new employes get their first training in business in the store. They have not acquired any ideas which have to be corrected. At any rate this drug store has come to be pretty much of a local institution. No longer is it just a store. The volume of business it does and the net annual profits are both large enough to demonstrate that pleasing people does pay.

Study Your Customer

A man became convinced the toys being manufactured were not the kind which pleased youngsters most. He studied children and the possibilities of producing a line of toys which would please the kids. The volume of business he has built up is proof that it pays to please even the youngest element of the population. It also demonstrates the importance of studying the people one serves.

Once there has been a change in policy regarding the pleasing of people, it becomes increasingly difficult to get back into the good graces of the customers. Just how difficult is indicated by the attitude taken by one of the oldest electrical contracting firms in a city of 200,000 population. This firm bought most of its materials and supplies from concerns in a larger city about fifty miles away. Until motor truck service was available it was necessary to rely upon the railroads. Directly after an agent of the railroad called on the contractor, in the early 1930's, the then head of the firm said he never would use rail service again. When there was no other means of transportation, he explained, the railroad took its own good time getting freight to him. Motor truck service meant he could

telephone his order to his supplier in the afternoon and have delivery made the following morning. The railroad was promising equally good service but could not interest him.

There are business firms which alienated their customers during and directly after the war. They will not know the cost of doing this until there is an ample supply of everything they sell and competition has become keen again. It is pretty certain some of them will never be able to win back their former positions. In fact they may have to go out of business entirely. What they have been doing since the war to win back the good will they lost will determine, in no small measure, the final outcome.

The Ex-Serviceman Problem

Just taking back employes who were away in the armed forces is not always enough. Some of them do not have the desire to please they had before they went away. One man, for example, came back to the job which had been held for him. He was popular with the customers before he went away. A great difference was noticed when he returned. He just did not like his job any longer. Whether or not he will settle down and do as well as he did before the war remains to be seen.

A good many concerns had to get along with whomever they could find in the way of employes. In some instances they had no choice but to keep on the payroll individuals who in ordinary times they would not have employed at all. Since the end of the war it has been possible to rebuild the organizations but there has not been time enough, in all cases, to get back to the spirit and the store atmosphere which existed before the war.

Always, after a war, there are men who were in the service who do not want to and never do go back to their former occupations. Some of them start businesses of their own. After the civil war, for example, a soldier came back, married and started a country store which was financed largely by his father-in-law. Men who returned home in 1918 and 1919 sometimes started business firms which were financed partly by themselves and partly by friends they made while in the service. The same holds true now. This may mean that some firms are faced with real difficulties in reforming their organizations in such a manner that the public they serve will be pleased. Only thorough retraining will bring back the desire to please which existed before the war. This is true because so many former employes may not come back and have to be replaced with new ones who have to be fitted into the organization.

One reason, of course, why some former employes do not come back is that they were in combat divisions which suffered heavy casualties. An abnormally large percentage of them were killed or crippled to such a degree they can no longer perform the duties they did before they went away. There, also, are those who suffered emotional upsets which unfitted them for business, for a time at least, and perhaps permanently. Firms which suffered such losses are faced with real difficulties in rebuilding their organizations but they do have one advantage. Customers are likely to take into consideration the fact so many of the employes who went to war never came back.

Other things being at all equal the new firms started since the war will prosper most if they strive to please. A man who was primarily a good salesman started selling automobiles. He made it a point to see that every person who bought from him was thoroughly satisfied. In fact he carried this so far that when he found that more and more of his first customers wanted a higher priced car than he had been selling he secured the dealership of the make of car he learned would please them and gave up selling the car he sold at first.

In contrast is a pioneer dealer who became possessed with the idea of efficiency and reducing costs. He divided his business into departments and insisted that each department keep costs down to the minimum. He went so far in this direction that pleasing customers was overlooked. The different department managers did not get along too well with each other because they suspected there were attempts being made to pass costs from one department to another whenever that was possible. In the end this dealer went out of business. At one time, however, he was doing a larger volume than any other dealer in his territory. His mania for increasing profits by cutting costs without regard to the effect they would have on the customers proved expensive in the long run.

As new firms are started, their future can be determined to a considerable degree by the attitude taken respecting the pleasing of the public served. If the attitude is that of placing first the pleasing of customers and the business is at all well managed in other respects the chances are good the firm will grow and prosper. If not enough attention is given to pleasing customers, the chances of even remaining in business very long are slim, indeed. It is the customers who determine the success or failure of any undertaking and the degree to which they are pleased is an indication of how much they will support the business through their patronage.

Bankruptcy Curve

(*Continued from Page 20*)

and Supervising Conciliation Commissioner and the absorption of their duties and functions by the Referees in Bankruptcy. The Committee on Bankruptcy Administration and the Director of the Administrative Office of the United States Courts were authorized, in the event such legislation is proposed, to inform the Congress of the Conference's position.

With respect to office quarters for referees, the Conference adopted the following resolution:

> *Resolved,* That the Judicial Conference considers it very desirable for the Referees in Bankruptcy to have quarters in federal office buildings and recommends that wherever possible provision of this nature be made.

It directed that the Director of the Administrative Office of the United States Courts confer with the custodians of various federal office buildings in an effort to carry out the wishes of the Conference with respect to office facilities for referees.

THE DUTY OF THE INSURANCE BUYER

Ten—If Not More—Points To Watch Carefully

by P. M. GAHAGAN

Insurance Counselor, Milwaukee

Every corporation has one individual upon whom rests the responsibility for providing an adequate program of insurance protection. Frequently the Treasurer performs this function in conjunction with his manifold other duties; but often it is the Credit Manager, or the Controller, or the Office Manager. Regardless of any other title he may carry, the "insurance buyer" is charged with providing protection against loss of the assets of his corporation as a result of a number of hazards.

To assist him in the analysis of his problem, we might classify insurance under four general titles as follows:

1. *Property Damage,* of which fire, wind, explosion and sprinkler leakage are examples;
2. *Consequential Loss,* or losses occasioned, not directly, but as a result of some other loss—for example, interruption of production caused by fire damage to buildings and machinery—or loss to contents of a cooling room due to destruction of the refrigeration system;
3. *Casualty*—Various types of public and employers liability;
4. *Dishonesty*—Fidelity and Forgery bonds and so-called Money and Securities insurance against Burglary, Robbery, and Holdup are examples of this type of coverage.

You will note the omission of life, accident and health insurance from the foregoing classification, which omission is by design.

Wanted—A Curious Mind

The Buyer now has a start toward the task of determining his loss possibilities and further (and perhaps more important) his curiosity may have been aroused; and that might be termed the initial responsibility of the Buyer—Curiosity with respect to his insurance program.

Out of this curiosity he may decide to examine all of his insurance policies—perhaps he may set up a summary schedule showing the totals of various types of property insurance carried, the limits stipulated in his liability contract, or the manner in which the fidelity bond protects his employer corporation. As the summary schedule begins to take shape, he begins to wonder why—why this type of insurance—why this amount—why this insurance company—why this agent (or perhaps I should say agents)—and perhaps his "why's" suddenly crystallize into a single question, and we come to a second responsibility of the Buyer—Know the policy of management with respect to insurance; and here the foresighted Buyer stops to think—What should be the policy of management? and a flood of questions enter his mind, among which might be the following:

1. Is Management a minority stockholder with heavy responsibility to other stockholders?
2. Is Management a trustee for minors?
3. Is Management the sole owner, responsible only to itself so far as insurance losses are concerned?
4. Is the financial structure of the corporation such that heavy bank loans are necessary at times?
5. Is the bonded indebtedness ratio high?
6. Is the ratio of fixed assets plus inventories to total assets high?
7. Are the properties (including inventories) widely dispersed or heavily concentrated?
8. Is the manufacturing process simple or complex—does it require special facilities such as access to raw materials, location near market centers, specially built machinery, highly skilled labor?
9. Is Management obliged to buy insurance in definite markets to the exclusion of others, or will it buy in the competitive market as does its purchasing agent when he buys raw material?
10. Is the insurance buying policy of Management based on habit, sentiment or business judgment?

Survey Necessary

At this point perhaps the Buyer realizes the maze of problems he faces and decides he ought to "have a study" or "make a survey" of the situation. It's a disagreeable prospect to be sure, but perhaps a parallel may orientate the Buyer and assist him to view the problem in its true perspective.

Within the past two years we have listened with a great deal of interest to business men who have told us the story of the preparation of their claims for Excess Profits Tax Refunds under Section 722. They have shown us their reports; and while we may not have been able to appreciate the ingenuity of the premise on which they were based, we were amazed at the thorough job of preparation, the infinite pains, the meticulous tabulations, the graphic illustrations, the complicated charts, which made up these reports. One man said his was a $25,000 job; another said it had taken more than a year to prepare—a tremendous expenditure of time and energy and money, and for what?—to recover a sum of money which might not exceed 10% of the

amount which would be involved in a serious property damage loss.

And so the "study" or "survey" or "analysis" (or whatever name you may give it) of the insurance program *does* seem to take a rightful place in the duties and responsibilities of the Buyer. At any rate we shall assume *our* Buyer recognizes the need, and proceed.

Property Damage

Suppose we start with the Property Damage line—say the main plant, which comprises five buildings, equipped with manufacturing machinery, and housing inventories in various amounts and stages of completion. He examines the fire insurance policies, notes the total amount of coverage, and then becomes entranced by the interesting provisions of the contract. He notes that he is covered "for an amount not in excess of the actual cash value of the property at the date of loss"; that the policy applies only to "described property"; that it contains a 90% co-insurance clause, which he will immediately recognize as a two-way agreement whereby the insurance company agrees to a rate concession and, in consideration thereof, the insured promises to carry insurance equal (at least) to the prescribed co-insurance percentage of the *insurable value* of the property.

The question of values comes to his mind and again he refers to the policy to find that it covers "Building, Equipment and Stock" and he wonders, "Shall I use gross or net book value; appraisal values; arbitrary values? Do we have an appraisal? Is it current or old? How was the amount of insurance now carried originally determined? How long ago?"

He recalls further that patterns belonging to others are in the plant and that customers are sending in unit parts for machining—again he consults the policy and finds that it covers "property of others for which the insured is legally liable". Again he notes that Finished Goods are insured at *selling* price (less unincurred selling expenses) and makes a note to see whether or not this item is recognized in the schedule of values on which the amount of insurance was determined. Employees' clothes and

tools present a similar question.

Know the Values

Drawings, dies and patterns are items which he finds specifically referred to in the policy, and he falls to wondering what the pattern shop really contains. A visit, and a discussion with the foreman discloses patterns of every size and shape, some new and shiny, direct from the bench, and others which, from their general state of disrepair and the abundance of dust and cobwebs with which they are covered, obviously haven't been used in many years. Are they valueless? Will they ever be needed? Are the original drawings available? The Buyer wonders and decides he has a fourth responsibility—*Know the values.*

Since all of his concern with respect to values evolves from the necessity of compliance with a co-insurance clause the Buyer now turns his thoughts to the possibility of eliminating this troublesome provision, but when he tries to secure the necessary endorsement to accomplish the purpose, a flood of objections, reasons, explanations and admonitions engulfs him. He learns that frequently the fire insurance business is State regulated; that prescribed rates must be used; that deviations are rarely permitted; that the "Rating Bureau" (supported by the insurance companies) establishes and polices rates and is in turn accountable to the Commissioner of Insurance.

Know Your Bureaus

Many business men have become so accustomed to associating the term "Bureau" with a regulatory unit of government that the following incident is not surprising.

A business man found a change in his business as the war progressed. He handled and sold two products—product X (a dirty, heavy product requiring a considerable amount of handling and thus the cause of many employee injuries), which formerly represented about 75% of his sales, and product Y, a clean, light article, requiring little handling and easy to warehouse, which represented the balance. During the war the sales skyrocketed—but only with respect to product Y—the light article. Product X continued at the old sales level which gave rise to the idea in this man's mind that because the ratio of Product X sales to total sales had declined, he ought to have relief from the high workmen's compensation insurance rates applicable to payroll X. So he called the Compensation Rating Bureau who sent an inspector to the plant, but because he found unchanged the payroll and other conditions with respect to product X the inspector denied the application. It was some weeks later when I heard the story, but even then the applicant was outraged because (and I quote him) "these Bureaus which ought to be protecting the interests of the public don't seem to give a damn about me".

The foregoing example will suggest to the Buyer another responsibility—

Knowledge of and familiarity with the various bodies of authority and whom they represent.

Know Your Markets

So far our Buyer has been absorbed with policy wording and valuation of property covered. His attention is diverted momentarily to the question of premium costs.

Current Survey of Collections (January 1947)

(In percentages of replies received)

	Prompt	Fairly Prompt	Slow	Very Slow
Argentina	86	14	..	..
Bolivia	58	9	30	3
Brazil	81	19	..	..
British Possessions	82	18	..	..
Chile	56	13	25	6
Colombia	72	24	4	..
Costa Rica	55	13	30	2
Cuba	93	7	..	..
Dominican Republic	90	10	..	..
Ecuador	60	8	26	6
French Possessions	75	20	5	..
Guatemala	80	26	4	..
Haiti	88	12	..	..
Honduras	75	25	..	..
Mexico	86	6	8	..
Netherlands Possessions	90	6	4	..
Nicaragua	55	12	28	5
Panama	88	9	3	..
Paraguay	54	32	14	..
Peru	57	11	30	2
Puerto Rico	88	12	..	..
El Salvador	75	20	5	..
Uruguay	78	22	..	..
Venezuela	83	17	..	..

Survey of Terms Granted During Last Half of 1946

As Compared With 1945 Terms

(In percentages of replies received)

	No Change	More Liberal	Less Liberal	1946 Export Volume Compared with Year 1945*
Argentina	91%	5%	4%	190%
Bolivia	90%	5%	5%	164%
Brazil	92%	4%	4%	193%
British Possessions	93%	5%	2%	172%
Chile	91%	3%	6%	138%
Colombia	93%	5%	2%	133%
Costa Rica	90%	4%	6%	156%
Cuba	95%	5%	...	183%
Dominican Republic	95%	4%	1%	160%
Ecuador	91%	4%	5%	139%
French Possessions	90%	5%	5%	148%
Guatemala	93%	4%	3%	137%
Haiti	96%	4%	...	160%
Honduras	92%	5%	3%	158%
Mexico	92%	4%	4%	181%
Netherlands Possessions	93%	4%	3%	165%
Nicaragua	90%	5%	5%	140%
Panama	94%	3%	3%	147%
Paraguay	92%	5%	3%	164%
Peru	90%	3%	7%	149%
Puerto Rico	96%	4%	...	180%
El Salvador	95%	5%	...	142%
Uruguay	95%	3%	2%	166%
Venezuela	92%	4%	4%	173%

* Average percentages of all reports received.

He begins now to think in these terms and by comparisons of his rates with those of others, by attendance at trade conventions, by perusal of insurance magazines, by discussions with insurance company representatives, and perhaps even by reading all of his mail, he discovers that he himself has some control over his costs. The good fortune of having buildings of fireproof construction, equipped with automatic sprinklers and located in non-congested areas, may be circumstances over which the Buyer has had no previous influence, but he can now be quick to take advantage of the situation. In this process he learns of the stock company pool which gives preferential treatment to preferred risks and of the senior mutuals which confine their underwriting to the superior classes of construction. He decides to add another responsibility to his growing list:

> Knowledge of insurance markets and of the functions and methods of operation of the various underwriting groups.

At the outset we classified the various forms of insurance into groups, from the first of which—Property Damage—we have drawn conclusions as to some responsibilities of the Buyer. Merely for the sake of variety but still in search of added responsibilities of the Buyer, we turn now to the Casualty Insurance Classification—more specifically to Workmen's Compensation Insurance — although other forms would serve the purpose just as well.

How Rates Fluctuate

Our Buyer knows that rates for this type of insurance are established virtually by law (in many states), and that they are basically identical for all insured's having the same payroll classifications. Nevertheless, he notes that his rates do not coincide with the base rates for his industry. His rates are lower than base *some* years and higher than base in *other* years. And he knows the reason—the loss ratio in his own plant. When his accident cost and frequency rises, his rates follow. The reverse is also true, of course. At this point our Buyer begins to wonder again, this time, with respect to loss infor-

mation in his files.

With this thought as background let's subject ourselves to an I. Q. test. We'll put the questions and you answer them mentally:

1. What was your auto liability insurance premium last year?
2. What was your workmen's compensation insurance premium last year?
3. What was your public liability insurance premium last year?

Having answered these questions approximately, now answer the following:

1. How much did your insurance carrier pay out in losses for you last year in automobile liability, workmen's compensation and public liability cases?
2. How does your ratio of losses to premiums compare with the national average or the insurance company's own average?

Current Records Essential

The object of this I. Q. test is at once apparent as is the answer to the next logical question—"What records should be kept?" And the answer—you will keep such records as will enable you to decide yourself whether your insurance cost is "high" (as you may think it is) or "low" (as you may have been told it is).

With respect to casualty and dishonesty insurance losses some buyers insist that the carrying company keep them *currently informed* of the status of all serious claims and that they be notified of amounts paid to claimants in their behalf. Such information may become especially valuable at renewal date.

Again, and with respect to another type of record, let us imagine an Executive Committee meeting during which the Buyer is asked whether or not a certain hazard is covered. Nothing could be more exasperating than that he be obliged to thumb through a stack of insurance policies, uncertain as to which policy to examine, and unable, when he does locate the right policy, to put his finger on the exact wording applicable to the question raised. How much more convenient an indexed binder or policy briefs set up to set forth in summary form the essentials of each policy.

And so the Buyer adds another responsibility—

To record policies and information concerning coverage which will be helpful and readily available.

Settle For a Good Thing

We referred a moment ago to the question of whether the insurance premium for a certain line is low or high, and suggested that the ratio of losses to cost might furnish a clue to the answer. In the past, a less scientific approach to the answer has many times been used—we refer to the practice of opening key lines to competitive bids at every expiration date, with the ultimate result that many desirable companies tire of submitting unsuccessful quotations year after year—an obvious disadvantage to the buyer. Perhaps you will agree that if a reasonably good deal has been made in the first place, if the carrying company has fulfilled its contractural obligations and given good service, then it is probably in a better position to quote the *proper* premium than any competitor. Of course, this does not apply to carriers, which, once having written the business forget it except to renew it at existing rates, nor does it apply in cases where upheavals in the market have created opportunities for wide awake buyers. You will recall the disturbance in boiler, machinery and dishonesty insurance markets during the past few years as illustrations of this point.

Many buyers feel that if the carrying company is watched (and that means records) and the buyer knows his market, rarely will it be necessary to open lines to competitive bidding more often than once in from 3 to 6 years.

At this point, while we are suggesting what might be called "remedies at the disposal of the dissatisfied insurance buyer", it may be appropriate to mention the subject of self-insurance, its opportunities and its pitfalls.

There are many types of losses which lend themselves to a program of partial or full self-insurance. Plate glass and auto collision insurance are the most common examples, but the list might be extended to include fire and theft insurance on a large fleet of cars, burn-out insurance on small motors, explosion insurance on low pressure vessels, holdup insurance where the amount involved is small, "all risk" insur-

Comparison of Credit and Collection Index Figures

(Based on Surveys on Credit and Collection Conditions in Latin America)

	Credit Conditions			Collections		
	Jan. 1947	July 1946	Jan. 1946	Jan. 1947	July 1946	Jan. 1946
Argentina	294	285	290	100	100	100
Bolivia	263	245	232	67	97	88
Brazil	272	285	283	100	100	100
British Possessions	286	288	286	100	100	96
Chile	270	280	276	69	100	96
Colombia	273	288	287	96	94	97
Costa Rica	260	269	272	68	88	97
Cuba	296	294	292	100	97	100
Dominican Republic	295	292	286	100	100	94
Ecuador	261	267	264	68	91	94
French Possessions	268	266	...	95	100	...
Guatemala	285	282	286	96	100	98
Haiti	280	273	269	100	100	100
Honduras	285	286	273	100	100	100
Mexico	295	291	280	92	93	97
Netherlands Possessions	290	297	289	96	100	100
Nicaragua	254	257	251	67	94	92
Panama	281	300	278	97	100	97
Paraguay	275	271	268	86	88	95
Peru	260	283	278	68	100	100
Puerto Rico	293	282	289	100	100	100
El Salvador	283	275	272	95	94	100
Uruguay	284	286	274	100	100	100
Venezuela	291	294	279	100	100	94

Credit—

GOOD: 250 and up. Lowest percentage 50% good, 50% fair.
FAIRLY GOOD: 225 to 250. Lowest percentage 25% good, 75% fair.
FAIR: 200 to 225. Lowest percentage 100% fair.
POOR: 175 to 200. Lowest percentage 75% fair, 25% poor.
VERY POOR: Below 175.

Collections—

PROMPT: Over 70% prompt or fairly prompt collections.
FAIRLY PROMPT: 50% to 70% prompt or fairly prompt collections.
SLOW: 40% to 50% prompt or fairly prompt collections.
VERY SLOW: Less than 40% prompt or fairly prompt collections.

ance on salesmen's samples and even workmen's compensation insurance under certain conditions and with proper safeguards. Certainly, potentially small, non-catastrophe, frequently recurring losses warrant the Buyer's consideration as risks which may be self-insured. However, the Buyer will foresee the probability that Management's first question, even after a small loss, will be—"Does our insurance cover this loss?" If the Buyer has previously decided that this type of loss is one that he can safely self-insure, his answer, instead of a flat "No"—may be to remind Management that this loss is self-insured. It seems logical to feel that his answer will be even more effective and convincing if he has taken the precaution to set up a special reserve for self-insured losses, or at least to make provision for such losses in a bulk Contingent Reserve. A self-insurance reserve, built up by small annual provisions, may soon become (with good luck) adequate to absorb fairly substantial losses, thus imbuing the Buyer with courage which he might not otherwise have had. A word of caution may be suggested in the following questions:

1. Is this risk a potential catastrophe?
2. Are losses apt to be recurring and small?
3. Compared with the maximum probable loss is the premium reasonable?

While the foregoing is somewhat of an exploratory side trip into the realm of self-insurance, it suggests to the thinking Buyer that he accept another responsibility—viz.:

View the question of self-insurance with a cautious, yet open, mind.

We're Not Finished Yet

Depending upon individual circumstances, including the organization chart and the practical application of the lines of authority shown thereon, the Buyer must shoulder another responsibility—more evasive to grasp than any thus far discussed and hence one which is the source of considerable worry to him. To illustrate we quote the following wording from two agreements, both of which were routed over the Buyer's desk for deposit in the files—

1. "and the Lessee (the Buyer's corporation) further agrees to keep the building in good repair, fire or other hazard, not caused by the negligence of the Lessee, excepted."
2. "and the buyer (the Buyer's corporation) hereby agrees to hold free and harmless the seller, from all claims for damages arising out of defects in the product."

Surely, you say, it is impractical for the Buyer to concern himself with all contracts and agreements entered into by his fellow executives—let the attorneys worry about such things. Yet the Buyer is charged with imperfections in the insurance program—therefore another responsibility—

Educate your associates who negotiate contracts to consult you with respect to the insurance requirements thereof.

By this time you will have reached the conclusion that the title of this paper, "The Duty of the Insurance Buyer" would have been more accurately expressed by the words—

"*Some* of the duties of the insurance buyer!"

because, in addition to those we have specifically mentioned, others have occurred to you, and it is obvious, therefore, that this list is not all-inclusive.

Summary

To summarize, then, we have suggested the following, among the numerous responsibilities of the Buyer for Insurance Protection:

1. Be inquisitive about the insurance program;
2. Know the policy of Management or assist in the formulation of a policy;
3. Make a survey of the insurance program;
4. Know the values;
5. Know the various insurance bodies of authority and whom they represent;
6. Know the insurance markets and be familiar with the operations of the various underwriting groups;
7. Keep records;
8. Be open minded and at the same time cautious, with respect to the question of self-insurance;
9. Make your associate executives insurance-conscious with respect to their work;
10. Follow insurance legislation.

As has been indicated the list is not exhaustive, but it is hoped it will stimulate the insurance Buyer and his Management to a realization that under certain circumstances (after a fire, for example) a substantial part of the corporate assets may depend for their existence on the effectiveness of the Insurance Program.

MEMBERSHIP PROGRESS REPORT
May 1, 1946 to February 28, 1947
Comparison

	Net Gain	Total Feb. 28	Percent
CLASS A			
San Francisco	138	1070	114.80
Louisville	96	1070	109.85
Los Angeles	117	1319	109.73
CLASS B			
Cincinnati	107	547	124.31
Milwaukee	43	343	114.33
Baltimore	53	460	113.02
CLASS C			
San Diego	66	278	131.13
Dallas	30	251	113.57
Omaha	23	269	109.34
CLASS D			
Houston	27	185	117.08
Lexington	25	177	116.44
El Paso	15	118	114.56
CLASS E			
Terre Haute	17	63	136.95
Columbus	13	64	125.49
Norfolk	9	52	120.93
CLASS F			
Charlotte	17	52	148.57
Elmira	9	29	145.
Erie	7	26	136.84

New Yorkers Claim Attendance Record At Heimann Meeting

New York: The New York Credit Men think they have beaten the all-time record for numbers at a local Association meeting. The fifty-second annual banquet on February 6 was attended by 1800 members. (Last month we said 1500; that's what comes of writing about things before they happen!)

President Earl N. Felio, Colgate-Palmolive-Peet Co., gave a brief introductory address. He pointed out that what brought so many people together on such an occasion was Credit; "Credit, the most potent energizing factor in American and world commerce; Credit, which has paralleled the march of civilization and is an integral part of it; Credit, the highest expression of Man's confidence in Man."

Speaking on the business outlook for 1947, Mr. Felio declared that there are factors present of both strength and weakness. "Perhaps it might best be characterized as one of troubled prosperity," he said. "On the optimistic side, keep in mind that 2,000 new businesses are being established daily as against 1,200 withdrawing. What a sales potential for the forward-thinking credit man! On the pessimistic side, the 'prophets of doom' chorus is chanting that we are headed for a bad recession. Regardless of whether or not a recession is in the offing, the credit man must stay away from negative thinking. The alert, aggressive credit man will continue to be a profit-builder for the firm he represents."

The principal speaker of the evening was Henry H. Heimann, Executive Manager of the NACM. For his complete talk turn to page 4.

NACM NEWS

About Credit Leaders — *Association Activities*

Many Problems On Agenda for Congress Meetings

by FREDERICK W. ZANDER
Assistant Treasurer
United States Plywood Corp.
New York

With the thousand and one perplexing problems which lie ahead for business and industry, industry meetings scheduled for the semi-centennial credit congress of the National Association of Credit Men in New York City on May 11 to 15 promise to be of vital importance to every credit executive in the country. One full day has been set aside for these meetings, May 14. Some thirty different industry meetings already have been scheduled.

At these Industry Sessions, the credit executive will secure the benefit of the ideas and good counsel of his fellow workers. There he will have an opportunity to meet his industry associates, to hear their problems discussed, to submit his perplexities in a friendly round table contact and discussion.

Chairmen of the various Industry Meetings are now at work on their preliminary programs. Many outstanding speakers have been invited to appear. Credit executives with long years of successful work behind them will discuss subjects on which they can speak with authority. And it is safe to say no question or questions in need of discussion will be overlooked.

What is behind all this organizational activity? Why are thirty men working with hundreds of other men to set up programs for all these Industry Meetings? Profit is, of course, the obvious motive, for industry activity fosters better credit administration, which in turn reduces delinquent accounts receivable and bad debt losses and assures maximum returns from the liquidation of insolvencies, and all these loss eliminations spell profit.

Programs are now well past the preliminary stages. Committees are anxious to formulate their programs which will be of most interest to those in attendance. They invite suggestions. Pass your ideas and thoughts along to the Chairman or Committee member representing your industry—a list of which follows. Most important, plan to attend the Credit Congress and the Industry Meetings. You can't afford to miss it.

Advertising Media

Chairman—Clarence W. Pierson, Minneapolis Star Journal & Tribune, Minneapolis, Minn.

Vice-Chairmen—S. R. Dean, Columbia Broadcasting System, Inc., New York, N. Y.; Mrs. H. A. Fischer, Christian Science Publishing Society, Boston,

(Continued on Page 35)

HIGHLIGHTS OF THE MONTH IN N. A. C. M. ACTIVITIES

Gus Horn, Secretary-Manager of the Omaha Association, wires us as we go to press that the State Supreme Court has reversed the lower court ruling and upheld the constitutionality of the Nebraska Par-Clearance Law.

* * *

National President E. L. Blaine, Jr., returned late in February to his desk at the Peoples National Bank of Washington, after an extended tour of N.A.C.M. affiliated Associations in many sections of the country. He reports that wherever he visited he was pleased to note the credit profession is increasingly recognized as an important factor in business success.

* * *

Edward B. Moran, in charge of the Chicago office of N.A.C.M. and Director of Membership promotion, announces the formation of a new Association at Tulsa, Oklahoma. (See page 35.) This brings the total of affiliated Associations and Chapters to 123.

* * *

Dr. Carl D. Smith, Director of Education, reports that the enrollment in National Institute of Credit chapters at the end of February totalled 1183 as against 876 February 28 last year. During February this year 176 new students were enrolled. The report on the correspondence course enrollments also is quite interesting. The total at the end of February this year was 84 as compared with 24 last year.

* * *

Although the formal enrollment blanks have not yet been issued, 20 quite positive inquiries and requests for reservations have been received about the Executive's School of Credit and Financial Management to be held from August 17 to 30 at the University of Wisconsin.

Host City Is Preparing To Welcome You

New York: Nearer and nearer draws the time, the time that shall surely be! The various committees of the New York Credit Men's Association are beginning the last lap of the race against time.

Frederick Schrop

Since our last issue several bits of new news have come in. First, the hotel situation is unchanged as far as rooms are concerned, but slightly changed as regards rates. OPA control over transient rooms recently was lifted, you will recall, and though the hotel rates have gone up, they have not gone very far. The new rates have not been announced yet, but Frederick Schrop, Convention Director for the NACM, has been in touch with the hotels which are to house the delegates, and has been assured that the rates quoted elsewhere will be applicable at Convention time.

Very sketchily, this is the program outlined for the four days. On Sunday, May 11, delegates will be arriving at their various hotels. The Hostess Committee under the co-chairmanship of Mmes. William H. Pouch and William Fraser will hold a reception for delegates' wives. In the evening there will be a general reception for all delegates.

The convention proper opens on Monday, the 12th. The keynote address will be delivered. In the evening will come the President's reception and ball, preceded by dinners of Central, Western and other divisions.

On Tuesday, May 13, there will be a general convention session with outstanding speakers in the morning. The afternoon will be a "recess," as it were; there is a lot to see in New York in the daytime, too! Gala entertainment by famous Broadway stars will be the feature of the evening.

The industry sessions will be held on Wednesday, the 14th. Over thirty different group meetings will be held this year, each with its own special speakers and programs. The final decisions concern-

ing these meetings are now being made. In the evening the Credit Women's Groups will hold their dinner, as will the Bankers and other important groups. (*See below.*)

Thursday, May 15, will see the election of officers, presentation of resolutions and adjournment. All in all it looks as if this is going to be a very fine convention indeed.

Room Assignments

Getting back to the hotel situation for a moment, the Housing Committee is anxious that nobody should be in any doubt whatever about how and where rooms are assigned. So the following tips should be noted and taken as true.

First, the hotels will not guarantee a room at a stipulated rate. If a delegate requests a certain type of room at a certain rate his request will be given all possible consideration. However, no hotel can guarantee that such a room will be available; should it not be possible to fulfill the request exactly, a similar room at the next nearest rate will be assigned.

Secondly, the unhappy committee has received many requests which it is not in a position to satisfy. For example: "Please give me a nice room," "Please do not put me near the elevators," "Be sure to put me next door to somebody quiet" and so forth. Mr. Houston P. Reader, Chairman of the committee, unfortunately has no control over the allocation of rooms. The clerk at the hotel decides what rooms will be vacant at that time and is guided accordingly. So, if your room is not all that you would wish, the thing to do is see the clerk.

Concerning the group meetings, Mr. Heimann has this to say: These meetings are among the most worthwhile activities at the convention. They have increased in number to such an extent that it is difficult to schedule them without devoting an entire day to them. However, even by doing so, it is impossible to avoid certain conflicts. This year, unfortunately, there will be two simultaneous meetings that would normally be attended by the same executives. The Foreign Trade luncheon and meeting is scheduled for Wednesday afternoon. This will conflict with afternoon sessions of some groups, just as some of the groups will conflict with each other. It seems, therefore, that delegates from the various companies should make plans so that one representative can attend one meeting and another another.

New York Committees Now Hard at Work on Big May Convention

Numerous convention committees, functioning through the office of the New York Credit Men's Association, are now hard at work on plans for looking after the comfort and pleasure of those thousands who will be their guests next May. The nature of the work of some committees requires a good deal of advance preparation.

Mrs. William Pouch and Mrs. William Fraser, as heads of the Hostess Committee, are developing a most attractive program of entertainment for the visiting ladies. Members of the New York Credit Men's Association are raising a special fund which will be used to insure a program of entertainment for all those attending the Convention, including the visiting ladies.

The Housing Committee is actively at work following the issuance of various bulletins on the subject by Convention Director Frederick Schrop. The hotel room situation is a difficult one but it is believed that by and large everyone attending will be taken care of. Housing Committee Chairman Houston P. Reader and Vice-Chairman Edward F. Addiss laid out a program and method of procedure which should take care of all situations as they arise.

James M. Cooke, chairman, and Leonard H. Ekstrom, vice-chairman, of the Entertainment Committee, are hard at work and are planning some pleasant surprises for the delegates and guests. There will be many sights which those attending have read of and heard talk about, and now will see first-hand.

The Bankers Committee, headed by Robert D. Scott, and assisted by B. Schoenfein, will hold a dinner Wednesday evening, May 14th, with all visiting bank representatives as their guests. This will be quite an affair. There will be one outstanding speaker on this occasion.

The Women's Club Committee, headed by Lillian M. Guth and Marion E. King, is preparing details for the Women's Club dinner Wednesday evening.

All of the lady delegates, as well as visiting wives, who arrive on Sunday, are invited to the Tea which will be sponsored by the Women's Hostess Committee, in the parlor of the Hotel Pennsylvania, Sunday afternoon and evening.

The Finance Committee, headed by William Fraser, and assisted by R. G. Woodbury, is raising funds to be used for the entertainment of delegates and guests. Mr. Fraser headed the same committee in 1926, and those who attended that Convention still speak of their wonderful experience.

The Industry Committee, headed by Frederick W. Zander, assisted by Arthur Kramer, has been actively at work in cooperation with S. J. Haider, Central Interchange Bureau, in laying plans for the thirty or more industry group sessions to be held throughout the day on Wednesday, May 14th. Prominent speakers on important subjects of the day will precede open forum discussions. Many members feel that these sessions alone, will repay them for their trip across the Country.

If the earnestness and zeal with which these numerous committees are taking up their work is any indication, this will be a Convention long to be remembered. There is certainly a treat in store for those who are planning to attend this Convention.

SCHEDULE OF NEW HOTEL RATES

(Subject to 5% New York City Tax)

HOTEL	SINGLE	DOUBLE	WITH TWIN BEDS
Capitol	None allocated	$5.50	$5.50
Dixie	$4.00-$6.00	None allocated	$6.00-$7.00
Edison	None allocated	None allocated	$5.80-$8.00
Governor Clinton	$4.50-$5.00	$6.50-$7.50	$7.50-$8.50
Lincoln	None allocated	None allocated	$5.00-$8.00
McAlpin	$3.85-$5.75	None allocated	$5.75-$10.00
Martinique	None allocated	None allocated	$5.00-$6.00
New Yorker*	$4.50-$9.00	$6.50-$11.00	$7.00-$11.00
Paramount	None allocated	None allocated	$6.00
Park Central	None allocated	None allocated	$7.00-$8.00
Pennsylvania*	$4.00-$7.00	$6.00-$9.00	$7.00-$12.00
Piccadilly	None allocated	$5.00	$6.00
Times Square	$3.00	None allocated	$4.50

(* *Convention Headquarters*)

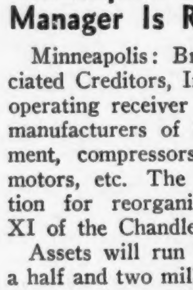
Minneapolis Secretary-Manager Is Receiver

Minneapolis: Brace Bennitt, of Associated Creditors, Inc., has been appointed operating receiver for the Cornelius Co., manufacturers of beer dispensing equipment, compressors, insecticide sprayers, motors, etc. The company filed a petition for reorganization under Chapter XI of the Chandler Act.

Assets will run between a million and a half and two million dollars per annum. The Receiver and his staff are operating the business pending the final determination of the plant's reorganization.

Prominent Dallas Credit Man Promoted to General Manager of His Company

Dallas: H. T. Biar, Credit Manager of the Schoellkopf Company since 1926 and of the Spencer Company, which was absorbed by the Schoellkopf Company, since 1920, has been promoted to General Manager. Since 1942 he has been in charge of personnel and office management in addition to his credit work. Mr. Biar has served the Dallas and National Associations of Credit Men for the past 27 years. He filled two terms on the Board of Directors, and was Vice-President and President of the Dallas Association from 1932-33 and 1933-34, respectively.



New Association At Tulsa Elects First Officers

C. H. Alexander

Tulsa: The newest Credit Managers' Association was organized on February 12 at a dinner meeting at the Mayo Hotel, Tulsa. Seventy-one executives, representing fifty-six wholesale, manufacturing and banking institutions of that city were present. The official title of the new group is the Tulsa Wholesale Credit Managers' Association.

Mr. M. C. Roberts, Assistant Treasurer and Credit Manager, Tidewater Associated Oil Co., Chairman of the organization committee, presided. E. B. Moran, Director of Sales and Promotion, NACM, spoke and also acted as narrator in the presentation of a picture story of Association activities and benefits. Mike Pemberton, Secretary of the Oklahoma Wholesale Credit Men's Association also spoke and assured the members of the cooperation of Oklahoma City.

The sound-slide film "What would you say?" issued by the Standard Oil Company of California, was shown.

The following officers and directors were elected to lead the new Association: President—C. H. Alexander, Alexander Drug Co.; Vice-President—O. C. Keegan, Phillips Petroleum Co., and D. L. Brackett, United Brick & Tile Co.; Treasurer—S. C. Hieronymus, First National Bank & Trust Co.; Secretary—C. E. Kelley, Tulsa Paper Co.

The Directors are John Gardner, Hale-Halsell Co.; R. L. Griffin, Griffin-Goodner Grocery Co.; M. V. Peterson, Petroleum Marketing Co.; M. C. Roberts, Tidewater Associated Oil Co., and Carl F. Weidemann, Collins-Dietz-Morris Co.

Ladies Night Draws Crowd at Detroit

Detroit: The Detroit Association of Credit Men's 30th annual Ladies' Night attracted 320 members and guests to the Detroit Yacht Club on February 12. The evening was given over to unmixed pleasure, highlighted by a chicken dinner, dancing and many excellent prizes.

Committees (*from 33*)

Mass.; G. S. Pasquier, Shreveport Times, Shreveport, La.

Treasurer—R. B. Gratzer, Courier-Journal & Times, Louisville, Ky.

Automotive

Chairman—H. W. Swenson, Reinhard Brothers, Minneapolis, Minn.

Bankers' Forum

Chairman—R. D. Scott, Chemical Bank and Trust Co., New York.

Vice-Chairman — Benjamin Schoenfein, Public National Bank and Trust Co., New York.

Brewers, Distillers and Wholesale Liquor

Chairman—R. L. Saylor, Falstaff Brewing Corp., St. Louis, Mo.

Vice-Chairman—Arthur Moench, Gooderham & Worts, Ltd., New York, N. Y.

Building Material and Construction

Chairman—Maurice Goldberg, Belden-Stark Brick Corp., New York, N. Y.

Vice-Chairman—A. F. O. Pfeiffer, Celotex Corp., Chicago, Ill.

Cement

General Chairman and Executive Secretary—Elliot Balestier, Jr.

Co-Chairmen—Chairman, Eastern Group, R. E. Daniels, Vice-President and Secretary of the Federal Portland Cement Co., Buffalo, New York. Chairman, Central Group, John Quincy Adams, Secretary-Treasurer of The Bessemer Limestone and Cement Co., Youngstown, Ohio. Chairman, Southern Group, E. W. Strange, Assistant Treasurer of the Lone Star Cement Corp., Birmingham, Alabama. Chairman, Western Group, J. O. Moore, Assistant Treasurer of the Pennsylvania Dixie Cement Corp., Des Moines, Iowa.

(The meeting will discuss a series of current and world problems as they relate to the Cement Industry credits.)

Chemical and Dye

Chairman—A. W. Hill, E. I. du Pont de Nemours & Co., Wilmington, Del.

Vice-Chairman—J. C. Hajduk, Victor Chemical Works, Chicago, Ill.

Confectionery Manufacturers

Chairman—A. H. Mader, American Chicle Co., Long Island City, N. Y.

Vice-Chairman—I. R. Wagar, E. J. Brach & Sons Co., Chicago, Ill.

Drugs, Cosmetics and Pharmaceuticals

Chairman—H. E. Silverstone, Galler Drug Co., Chicago, Ill.

Vice-Chairman—Raymond Holliday, E. Fougera & Co., Inc., New York, N. Y.

Electrical and Radio

Chairman—Richard H. Davis, General Electric Supply Corp., Boston, Mass.

Vice-Chairman—William C. Hall, Sylvania Products, Inc., Salem, Mass.

Fine Paper

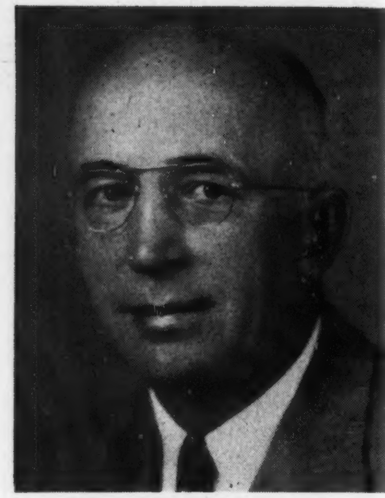
Chairman—W. D. Paterson, Weissinger Paper Co., Lansing, Mich.

Vice-Chairmen—E. G. Holmes, C. P. Lesh Paper Co., Indianapolis, Ind.; P. J. Sullivan, International Paper Co., New York, N. Y.

(*More on Page 40*)

LOS ANGELES
Lewis J. Ashby
Credit Manager
McKESSON & ROBBINS, INC.

DETROIT
Allan G. Campbell
President
WESTCOTT PAPER PRODUCTS CO.



PHILADELPHIA
William Stockton
General Credit Manager
ATLANTIC REFINING CO.

ASSOCIATION PRESIDENTS

Mother, may I go out to swim?
Yes, my darling daughter:
Hang your clothes on a hickory limb
But don't go near the water.

Good old *Anonymous!* He always comes up with the right word at the right time.

Aspiring Presidents, take warning. Should you be elected, the rhyme above is NOT a good criterion on which to base your conduct of such an office.

The job carries prestige, of course. However, it is not one of those nice little sinecures, full of prestige and pomp but not achieving anything. If you become a President you won't even have time to hang your clothes up neatly on that hickory limb before you have to dive right in—at the deep end, to boot!

Think of all the committees you have ever heard of that your local Association has. Who is responsible for them? Their chairmen? Certainly. And who is responsible for *them?* Right!

It just goes to show you. If you become a President you will occasionally get your name in the papers. You may even get your picture in these pages. But be warned you'll put a lot more in than you get out, if you want to do a good job.

These gentlemen are coming to the end of their year's stint. They deserve the thanks of their colleagues for a job well done. Some of them may have done the job so well that they will be re-elected and have to start all over again. Good luck to them.

KANSAS CITY
Glenn E. Gilman
District Credit Manager
COLGATE-PALMOLIVE-PEET CO.

OMAHA
Stephen J. Wirtz
Assistant Cashier
OMAHA NATIONAL BANK

DES MOINES
Edward P. Kautzky
Vice-President
VALLEY BANK & TRUST CO.

DALLAS
J. I. Clemons
District Credit Manager
THE TEXAS COMPANY

District Two Spring Planning Meeting to Be Held on April 12

Elmira: The annual spring planning meeting of District Two, NACM, is to be held at Elmira, N. Y., this year on Saturday, April 12. The Mark Twain Hotel will be headquarters. The Elmira Association of Credit Men will be the host to the meeting.

Mr. Alfred Janus, Councillor of the Rochester Association, will continue as presiding officer of the conference, since the site of the 1947 Tri-State Conference has not yet been decided upon; until it is, a new chairman cannot take over.

Those attending the meeting will be President, Councillors and Secretaries of District Two, together with the National Directors and other National Officers in the District.

Stroke Fatal to Omaha Credit Man

Omaha: Walter F. Sprengel, credit Manager of Paxton & Gallagher Company, Omaha, Nebraska, passed away Friday, February 7 at Grand Island, Nebraska. He had suffered a stroke and cerebral hemorrhage on the train as it was entering Grand Island and did not regain consciousness. Walter Sprengel had been associated with Paxton & Gallagher Company for twenty years. He was a past director of the Omaha Association of Credit Men and at the time of his passing was chairman of its Legislative Committee. He displayed keen interest in legislative matters and gave immeasurable aid and assistance in the sponsoring of the Nebraska par clearance check bill.

Worcester Holds Panel Discussion

Worcester: The Worcester County Association of Credit Men held a panel discussion of credit problems at their monthly dinner meeting on February 10.

Taking part in the discussion were Robert K. Massey, John Miller, John E. Pierce, Kenneth H. Stewart and Douglas L. Brennan, who was program chairman. A question period followed.

Louisville Bankers Turn Out to Meet Pres. Blaine

Louisville: Practically all the banks in Louisville were represented by their Presidents or other officers at the February 6 meeting of the Louisville Association of Credit Men. As a compliment to President Blaine, the principal speaker, the bankers were placed at the speakers' table.

Mr. Blaine was introduced by Wallace M. Davis, Vice-President, Citizens Fidelity Bank & Trust Company, the largest financial institution in Kentucky. The Pendennis Club gave a noon luncheon for Mr. Blaine.

Chicago: The Chicago Association of Credit Men now has a representative in the lower House of Congress in Washington. He is Richard B. Vail, Republican, who was recently elected to represent the Second Congressional District of Illinois, one of the largest in Cook County. Mr. Vail is treasurer of the Vail Manufacturing Company. This is his first political office.

Annual Midwest Food Conference Held in Chicago February 21

Chicago: The annual Midwest Food Manufacturers and Manufacturing Confectioners Credit Conference was held at the Morrison Hotel, Chicago on February 21.

Speakers and their subjects were: Eric Burke, George Weston, Ltd., Toronto, on "What the credit manager looks for in management"; Joseph T. Meek, Executive Secretary, Illinois Federation of Retail Associations, on "Illinois Retail Conditions"; Stacey H. Gifford, Secretary, Reid, Murdoch and Co., Chicago, on "Sales and credit relationship in 1947"; and William L. Ayers, editor of *Finance* on "Current Trends."

Electronics Expert Fascinates Hearers At Kansas City Meet

Kansas City: Gordon Volkenant, Associate Director of Research for the Minneapolis-Honeywell Regulator Company, addressed the Kansas City Association of Credit Men on "The Magic of Electronics" at the Dinner Meeting on February 20.

A native of Minnesota, Mr. Volkenant has for ten years been engaged principally in electronic engineering, and in the design and construction of radio stations and equipment. His work has taken him throughout the United States and to Canada, Mexico, Cuba and thirteen countries of Europe.

During the course of his talk he showed how the eager little electron will perform such chores as detecting fire, detecting humidity and detecting husbands who come home late.

Business failures increased in number 150.5% for the month of January 1947, over the month of January 1946. They exceeded December 1946 failures by 43.3%.

Failures for January 1947 in terms of liabilities were 247.5% greater than in January 1946, and 11.2% less than in December 1946.

—Figures from the "Statistical Guide to Current Business", published by the United Business Service.

Many-Sided Forum Held in Washington

Washington, D. C.: The Washington Association of Credit Men held an interesting and varied panel discussion at their dinner meeting at the Lee-Sheraton Hotel on February 25th.

Four leaders in their respective fields participated in the discussion, two of them Past Presidents and one a member.

Mr. John A. Bresnahan, Referee in Bankruptcy, spoke on the subject, "How to File a Claim in Bankruptcy." Mr. Stuart S. Ogilvie, a Past President, Vice-President of the Second National Bank, chose "A Banker Looks at Credit." Mr. Waldo J. Tastet, also a Past President, and President of Fries, Beall & Sharp Co., dealt with the subject "What Is Money?" and Mr. John E. Carroll, National Surety Corp., with "Protection Through Fidelity Bonds."

"Geography and Peace" Discussed at Pittsburgh

Pittsburgh: The Credit Association of Western Pennsylvania had as their guest speaker, on February 18, Dr. J. Warren Nystrom, head of the Geography Department at the University of Pittsburgh. Dr. Nystrom spoke on "Geography and Peace Problems."

In addition to his University duties, Dr. Nystrom is a Director of the Foreign Policy Association.

Cincinnati Directors Hold Indoctrination Meet for New Members

Cincinnati: The Cincinnati Association, following a quarterly custom, invited the new members to meet with the Board of Directors at the Cincinnati Club on February 25. Thirty-two new members were present.

The Board is set up so that every Director is Chairman of one of the principal committees. Each Director gave a three-minute sketch of the operation and function of his particular committee. After that the Association sound-slide film was presented.

The presentation of the Association program was well done, and the members left feeling very enthusiastic about their membership.

Portland Continues Educational Drive

Portland: The Portland Association of Credit Men, an early quota winner in the Membership effort, recently concluded its fourth and most successful Aline E. Hower Letter Writing Clinic. Sixty firms sent 185 representatives. One member firm sent 20 of its correspondents.

In addition to its letter writing clinic, the Association has presented a series of eight evening lectures on credit subjects. These were designed to serve as refresher courses for credit men and women of long experience as well as "lodestars" for the younger credit people. More than one hundred registered for the series.

NEW YORK—CONVENTION CITY

World's Largest Metropolis Has Myriad Attractions

New York is an astonishing place. No matter what you want to do or where you want to do it, it can be done and it only takes a nickel to get there. Theaters, concerts, movies, museums, zoos, stores, beaches, they are all there, all slightly bigger and better than anywhere else.

The so-called Pennzone Hotels are all within a block of the Pennsylvania Station, a huge hunk of masonry bounded by Seventh and Eighth Avenues. The Pennsylvania Hotel, Headquarters for the NACM Convention is directly opposite Penn Station on Seventh Avenue, between 33rd and 32nd Streets.

A brief note on how to find your way around New York may not be out of order. We will confine ourselves to Manhattan Island, as that is where most of our visitors will spend their time.

Coming out of the front door of the Pennsylvania Hotel you are on Seventh Avenue. All the avenues in Manhattan run north and south; the streets east and west. All the avenues are broad thoroughfares, each with a constant stream of two way traffic. Most of the streets are one-way, even streets west to east, odd streets east to west. There are one or two exceptions, but very few, and they are all clearly marked.

There is some kind of transportation on all the avenues. In the mid-town section where most of our activities will be

concentrated 8th Avenue has a subway and busses; 7th Avenue the same; 6th Avenue the same, 5th Avenue has the famous double-deck busses which are familiar in picture at least to everyone who can read, whether he has visited New York or not. There are crosstown busses on 14th, 23rd, 34th, 42nd, 49th, 50th and 57th Streets.

The Pennzone Hotels are ideally situated as a jumping-off spot for a visitor. Nine blocks up Seventh Avenue is Times Square (starting, again from the Pennsylvania Hotel). Madison Square Garden is at 8th Avenue and 50th Street. Radio City is at 6th Avenue and 50th Street. And should anyone want to visit the National office—and we hope that many will—it is at 33rd Street and Park Avenue, just four blocks east of the hotel. As a matter of fact, all the hotels we are going to use are equally convenient.

As we said above, no matter what you want to do or see, New York has it. Whatever your interest, New York can satisfy it.

If it's science, there is the Museum of Science and Industry in Rockefeller Center.

If it's astronomy, the Hayden Planetarium will spread before your eyes the heavens of yesterday, today and tomorrow.

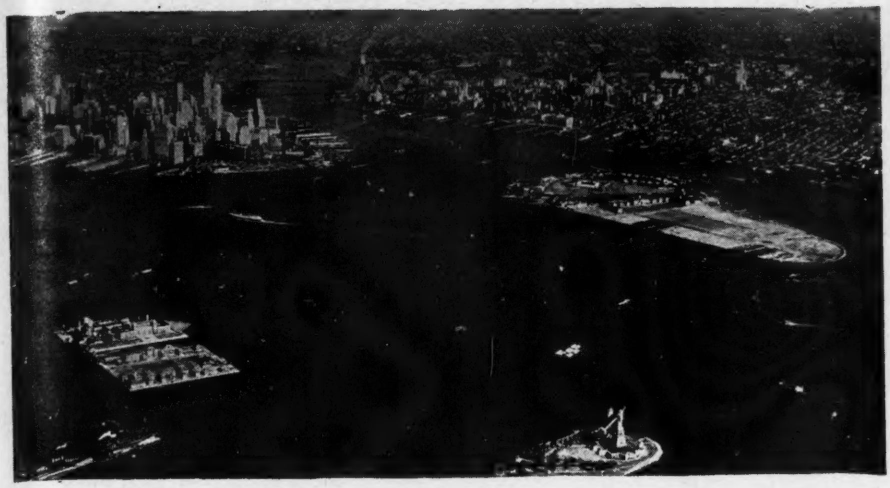
If it's the theater, the opportunities are unequalled as you see by strolling around between 42nd and 59th Streets—everything from grand opera down to trained flea shows.

If it's transportation ride the subway, the elevated, the double-decker buses, or any other kind of vehicle that human ingenuity has produced. And, of course, somehow or other you will want to go over and under the Hudson via the tubes, the ferries, and the majestic George Washington Bridge.

If it's architecture, take along your favorite liniment to cure your stiff neck after you've gasped and gazed up at the tower of the Empire State Building, the canyons of lower Manhattan, or looked down from the observation towers of

Top left — Columbus Circle. Bring your own soapbox and orate to your heart's content. Or if you don't feel like making a speech yourself go and heckle someone who does, or watch the pitchmen at work. You might pick up a genuine imitation leather wallet, value $1.00, for only $2.50.

Bottom left—TIMES SQUARE, the



Rockefeller Center.

If it's epicurean, there are restaurants in profusion of every known nationality and type.

If it's sociology, visit the tenements on the lower East Side or 125th Street in Harlem and don't miss Chinatown or perhaps a session of night court.

If it's art, there are the Metropolitan Museum of Art and the many other exhibitions and galleries.

If it's natural history, there is the American Museum of Natural History.

If it's churches, there are the Cathedral of St. John the Divine, the Little Church Around the Corner, St. Patrick's Cathedral, and others of all creeds.

If it's open spaces—well, you wouldn't go to New York to find them but as a matter of fact you can even find some fairly wide spaces. For on Manhattan Island, Central Park alone covers more than 800 acres.

If you plan on driving the roads are magnificent. The Pulaski Skyway, just across the river in New Jersey, is a sight to be seen. The Merritt Parkway through Connecticut is one of the most beautiful roads in the world.

No matter how you come, the important thing is to COME. The traveling situation has eased; hotel reservations are assured before you leave home; contacts and conferences vital to your job will be there when you arrive. How can you afford not to come?

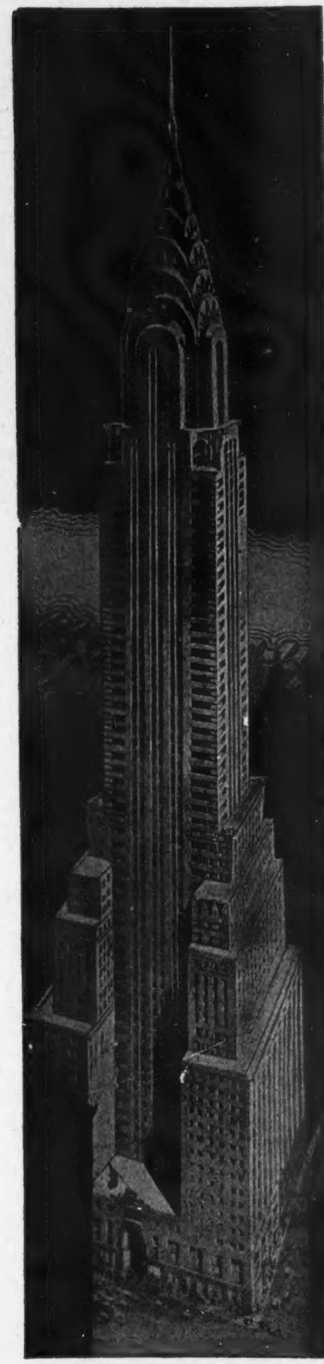
Plan Luncheon Forum at N. Y. Convention on Insurance Problems

The Insurance Committee of the New York Credit Men's Association and also members of the Insurance Industry Group are planning a luncheon meeting at the 50th Anniversary Convention in New York City on Wednesday noon, May 14, for a discussion of the general subjects, "The Relation of Insurance to Credit." The committee in charge of this session consists of A. L. Carr, Vice-President of the National Surety Corporation of New York, Harold Parker, Insurance Expert for the Chase National Bank, New York, Alfred Rothschild, Weiss & Klau Company, New York City, and Eugene C. Richards, American Insurance Co., Newark.

Credit executives who have insurance problems either for their own companies or other protection of their accounts are urged to submit such problems for discussion at this meeting.

It is the present plan to present a speaker with experience in insurance as it relates to credit and to have a panel of experts on hand.

The place of holding this luncheon session will be announced in the April issue of CREDIT AND FINANCIAL MANAGEMENT.



center of New York night life. Here will be found the famous animated signs, the New York Times building, the Astor Hotel, and, within a block or two, all the theaters.

Above—New York Harbor from the air. The Statue of Liberty is in the right foreground the New York skyline left background.

Top right—the Chrysler Building, one of the many from the top of which you can get a breath-taking view of the city.

Bottom right—the George Washington Bridge, one of the approaches to New York from New Jersey. Over 9,000,000 vehicles cross the bridge annually.

(All Pictures Courtesy of the New York Convention and Visitors Bureau)

Committees (*from 35*)

Floor Coverings and Furniture

Chairman—I. Riegelhaupt, Crockett & Buss, Inc., New York, N. Y.

Vice-Chairman—J. T. Smith, Rosenfeld Co., Atlanta, Ga.

Food Products and Allied Lines Manufacturing

Chairman—J. F. Welsh, McCormick & Co., Baltimore, Md.

Vice-Chairmen—A. P. Brigham, Pet Milk Sales Corp., St. Louis, Mo.; C. H. Cummins, C & H Sugar Refining Co., San Francisco, Calif.; Flora Meads, Von Allmen Preserving Co., Louisville, Ky.; E. O. Regelman, Bon Ami Co., New York, N. Y.

Food Products and Confectionery Wholesalers

Chairman—J. J. Killacky, John Sexton & Co., Chicago, Ill.

Vice-Chairmen—A. J. Kramer, Borden's Farm Products Div. (The Borden Co.), New York, N. Y.; W. H. Williams, Francis H. Leggett & Co., Buffalo, N. Y.; G. E. Wilson, Ritchie Grocer Co., El Dorado, Ark.

Footwear

Chairman—William Schmidt, Sundial Shoe Co., Manchester, N. H.

Vice-Chairman—Jacob M. Brandvein, M. J. Saks Shoe Corp., New York, N. Y.

General Roundtable

(Committee to be selected.)

Hardware Manufacturers

Chairman—J. F. Madden, Nicholson File Co., Providence, R. I.

Vice-Chairmen—C. R. Kierstead, J. Wiss & Sons Co., Newark, N. J.; F. M. Smith, Norton Lasier Co., Chicago, Ill.

Hardware Wholesalers

Chairman—G. C. Klippel, Van Camp Hardware & Iron Co., Indianapolis, Ind.

Vice-Chairman—F. V. Barrett, Masbach Hardware Co., Inc., New York, N. Y.

Insurance

Chairman—H. J. Lowry, Michigan Mutual Liability Co., Detroit, Mich.

Vice-Chairman—A. L. Carr, National Surety Corp., New York, N. Y.

Chairman of Planning Committee—J. Dillard Hall, United States Fidelity & Guaranty Co., Baltimore, Md.

Secretary—E. B. Moran, National Association of Credit Men, Chicago, Ill.

Iron and Steel

Chairman—Eldon F. Thomason, Bliss & Laughlin, Inc., Harvey, Ill.

Vice-Chairman—J. M. McComb, Crucible Steel Co. of America, New York, N. Y.

Machinery and Supplies

Chairman—L. W. Stolte, Fairbanks, Morse & Co., Chicago, Ill.

Vice-Chairmen—E. L. Dobbins, American Machine & Foundry Co., Brooklyn, N. Y.; F. J. Ebeling, Dodge Manufacturing Corp., Mishawaka, Ind.

Meat Packing

Chairman—J. W. Walsh, Swift & Co., New York, N. Y.

Vice-Chairman—J. E. Walsh, Oscar Mayer & Co., Chicago, Ill.

Non-Ferrous Metals, Raw Materials and Allied Lines

Chairman—Arthur Fuchs, National Lead Co., New York, N. Y.

Vice-Chairmen—V. W. Heyden, Chase Brass & Copper Co., Waterbury, Conn.; Leonard K. Morse, Bridgeport Brass Co., Bridgeport, Conn.; Philip S. Morshead, Revere Copper & Brass, Inc., Detroit, Mich.

Paint, Varnish, Lacquer and Wallpaper

Chairman—E. N. Ronnau, Cook Paint & Varnish Co., Kansas City, Mo.

Vice-Chairmen—Wesley Gilmour, Boston Varnish Co., Boston, Mass.; F. J. Hamerin, Lilly Varnish Co., Indianapolis, Ind.; Miss Karla J. Howe, Great Lakes Varnish Works, Inc., Chicago, Ill.; Harry Rhell, John T. Lewis & Brothers Co., Philadelphia, Pa.; Graham H. Rothweiler, Interchemical Corp., Newark, N. J.; A. J. Smith, Hercules Powder Co., Wilmington, Dela.

Paper Products and Converters

Chairman—A. R. Johnson, Container Corp. of America, Chicago, Ill.

Vice-Chairmen—C. R. Bradley, Robert Gair & Co., New York, N. Y.; F. Clifford Heath, Sealright Co., Inc., Fulton, N. Y.

Petroleum

Chairman—R. C. Ward, Sun Oil Co., Toledo, Ohio.

Vice-Chairmen—D. E. Burroughs, Shell Oil Co., New York, N. Y.; Leo E. Jones, Arkansas Fuel Oil Co., Shreveport, La.; Dewey Walker, Mid-Continent Petroleum Corp., Terre Haute, Ind.; J. A. Walker, Standard Oil Co. of California, San Francisco, Calif.

Plumbing, Heating, Refrigeration and Air Conditioning

Chairman—J. A. Livi, Surface Combustion Corp., Toledo, Ohio.

Vice-Chairmen—John T. Brown, Hajoca Corp., Philadelphia, Pa.; L. L. Daugherty, Crane Co., St. Louis, Mo.; Sylvester Durden, Noland Co., Newport News, Va.; Bryant Essick, Essick Manufacturing Co., Los Angeles, Calif.; Corwin R. Fraser, Burnham Boiler Corp., Irvington, N. Y.

Public Utilities

Chairman—Harold M. West, Indiana & Michigan Electric Co., South Bend, Ind.

Vice-Chairmen—John C. Betts, United Illuminating Co., New Haven, Conn.; James G. Waddick, Peoples Gas Light & Coke Co., Chicago, Ill.

Chairman of Planning Committee—C. E. Rowe, Consumers Power Co., Jackson, Mich.

Textile

Chairman—G. Earle Killeen, First National Bank of Boston, New York, New York.

Vice-Chairmen—Lambert H. DeVries, McCampbell & Co., New York, N. Y.; C. A. Launer, Simtex Mills, New York, N. Y.; E. M. Timmons, Comer Avondale Mills, Sylacauga, Ala.

Wearing Apparel

Chairman—Frank Spencer, Hickok Manufacturing Co., Rochester, N. Y.

Vice-Chairmen—C. H. Boardman, Marx & Haas-Korrekt Co., St. Louis, Mo.; Martin L. Depenbrock, Interwoven Stocking Co., Martinsburg, W. Va.; Aaron Langer, Star-Maid Dresses, New York, N. Y.; D. D. Lovelace, Frank H. Lee Co., Danbury, Conn.; H. E. McManigal, Summers Manufacturing Co., Los Angeles, Calif.; J. R. Pierson, Thomas, Field & Co., Charleston, W. Va.; Thomas M. Turner, William Iselin & Co., Inc., New York, N. Y.; Harry Wildstein, Sam Silberstein Co., New York, N. Y.

FURTHER ERRATA

Our list of local Associations should be amended as follows:
PORTLAND, Ore. Portland Association of Credit Men; E. W. Johnson, Exec. Vice-Pres. 337 Pittock Block, Portland, Ore.
FRESNO, Calif. Fresno Chapter, Credit Managers' Association of Northern & Central Calif. 513 Mason Bldg., 1044 Fulton St.

C. L. Fryman Is New Secretary-Manager of Dayton Association

Dayton: C. L. Fryman has been appointed Secretary-Manager of the Dayton Association of Credit Men to succeed Frank L. Hax. Mr. Hax resigned recently after being Secretary-Manager for 15 years.

Mr. Fryman has had over 25 years' experience in creit and finance with various Dayton concerns.

Henry Heimann Tells Credit Executives' Views on Tax Bills

In a recent letter to Rep. Harold Knutson (R., Minn.), Chairman of the House Ways and Means Committee, Executive Manager Henry H. Heimann explained to the Committee the views on various aspects of the forthcoming legislation of the Credit Executives of the Country.

First, he pointed out that the prime objective of any fiscal policy just now is a balanced budget; next should come a reduction of the National Debt, and after that a measure of tax relief.

Secondly, he showed the need for an equitable system of taxation that applies equally to cooperatives and the taxpaying business with which they compete.

His third point was that Credit Executives feel that double taxation of dividends should be eliminated. Fourthly, he said, there is a need to consider the limitation of time of tax claims in matters of bankruptcies or insolvencies in estates.